

# ONTARIO BUDGET REPORT

## “Building Opportunity, Securing Our Future”

### HIGHLIGHTS

- Deficit of \$11.3 billion now forecast for 2013-14
- Deficit of \$12.5 billion projected for 2014-15
- Tax increase for high income individuals
- Small business deduction phased out for large CCPCs

On May 1, 2014, the Honourable Charles Sousa presented his second budget as Minister of Finance. Similar to last year, with the Conservatives vowing to vote against the budget, the Liberal government will be looking for the NDP's support on today's budget in order to avoid an election.

The government set out a 10-year plan to stimulate the economy and create jobs. This plan includes spending initiatives in key areas, targeted tax increases and program expense growth management in order to hold to their commitment to balance the books by 2017-18.

The deficit reported for 2013-14 is \$11.3 billion which has decreased from the \$11.7 billion deficit that was forecast last year. A deficit of \$12.5 billion is forecast for 2014-15 and the outlook for 2015-16 is an \$8.9 billion deficit.

With a key focus on transit and infrastructure, the budget sets out \$130 billion over the next 10 years for strategic investments in public infrastructure. The government also plans to “maximize and unlock value” from government assets by improving efficiency and performance, but not necessarily selling assets.

Another government priority is retirement security. Without the federal government's current support for a CPP enhancement, Ontario is proposing to introduce a mandatory provincial pension plan to build on the CPP starting in 2017.

As earlier reported by the media, high income individuals will see their taxes increase beginning in 2014. First, a new tax bracket will be introduced to tax income over \$150,000 at a rate of 12.16%. In addition, the current high income bracket of \$514,090 will be lowered so that the rate of 13.16% applies to taxable income over \$220,000. The government will also move ahead with dividend tax credit changes proposed last fall that will see an increase in the tax rate on non-eligible dividends.

From a corporate tax perspective, changes will be made to ensure only smaller Canadian-controlled Private Corporations have access to the small business deduction. Other tax rate changes include tax increases on tobacco and aviation fuel.

The following is a summary of the more important items of interest to our clients.

Ontario Budget Projections (in billions \$)			
	Original Forecast 2013/2014	Revised Forecast 2013/2014	Projected 2014/2015
Revenue	116.8	115.7	118.9
Program Expense	(117.0)	(116.4)	(119.4)
Interest on Debt	(10.5)	(10.6)	(11.0)
Reserve	(1.0)	0.0	(1.0)
Deficit	(11.7)	(11.3)	(12.5)

## PERSONAL TAX MEASURES

### Personal Income Tax Rate Changes

The government has announced that in order to continue funding programs in a fair and balanced way, tax rates will be increased for individuals at higher levels of taxable income. Specifically, the government proposes to:

- Lower the taxable income threshold for the 13.16% tax rate from \$514,090 to \$220,000; and
- Add a new tax rate of 12.16% on taxable income between \$150,000 and \$220,000.

These changes will apply to taxation years ending after December 31, 2013. The two new income thresholds will not be adjusted for inflation each year.

With the announced changes, the combined federal/Ontario top marginal tax rates will now be as follows (including the Ontario surtax):

2014 Pre-Budget		2014 Post-Budget	
Taxable Income Range	Combined Tax Rates	Taxable Income Range	Combined Tax Rates
Above \$514,090	49.53%	Above \$514,090	49.53%
\$220,001 to \$514,090	46.41%	\$220,001 to \$514,090	49.53%
\$150,001 to \$220,000	46.41%	\$150,001 to \$220,000	47.97%
\$136,271 to \$150,000	46.41%	\$136,271 to \$150,000	46.41%

\*There will be no change to the tax rates for taxable income up to \$136,270.

## Dividend Tax Credit Changes

The government has confirmed that it will proceed with introducing legislation to implement dividend tax credit changes that were proposed on November 7, 2013 in the *2013 Ontario Economic Outlook and Fiscal Review*. These changes include:

- Calculating the Ontario surtax before deducting dividend tax credits from Ontario tax;
- Resetting the tax credit rate for non-eligible dividends to the 2013 rate of 4.5%; and
- Increasing the tax credit rate for eligible dividends from 6.4% to 10%.

Taking into consideration the personal tax changes announced in today's budget, the combined federal/Ontario marginal tax rates will be as follows:

Eligible Dividends			
Taxable Income Range	2013	2014	Increase/(Decrease) from 2013
Above \$514,090	33.85%	33.82%	(0.03%)
\$220,001 to \$514,090	29.54%	33.82%	4.28%
\$150,001 to \$220,000	29.54%	31.67%	2.13%
\$136,271 to \$150,000	29.54%	29.52%	(0.02%)

Non-Eligible Dividends			
Taxable Income Range	2013	2014	Increase/(Decrease) from 2013
Above \$514,090	36.47%	40.13%	3.66%
\$220,001 to \$514,090	32.57%	40.13%	7.56%
\$150,001 to \$220,000	32.57%	38.29%	5.72%
\$136,271 to \$150,000	32.57%	36.45%	3.88%

## Ontario Child Benefit

The Ontario Child Benefit (OCB) is provided to low to moderate income families with children under the age of 18. Today's budget proposes to increase the maximum annual OCB per child to \$1,310, effective July 2014. In addition, today's budget proposes to start indexing the maximum OCB benefit, and to index the income threshold at which the OCB starts to be reduced. The indexing would start in July 2015, and will be based on annual increases in the Ontario Consumer Price Index.

## Ontario Property and Sales Tax Credits

The Ontario Energy and Property Tax Credit (OEPTC) and the Northern Ontario Energy Credit (NOEC) will both be increased in 2014 to help offset higher energy costs for low to moderate income families and individuals.

The OEPTC will increase to \$1,108 for seniors and to \$973 for non-seniors, starting in 2014. The NOEC will increase to \$141 for single people and \$216 for families in the north, also starting in 2014.

## BUSINESS MEASURES

### Small Business Deduction

Today's budget proposes to phase-out the Ontario small business deduction for larger private corporations. This will bring the calculation of the Ontario small business deduction in line with the calculation of the small business deduction for federal tax purposes, in that only smaller Canadian-controlled Private Corporations (CCPCs) will be able to claim the deduction. The Ontario tax rate of 4.5% for income subject to the small business deduction will not change. As of May 1, 2014, CCPCs will only be able to claim the full \$500,000 Ontario small business deduction if their capital base is \$10 million or less. The capital base will be measured in the same manner as it is measured for federal tax purposes, as taxable capital employed in Canada in the previous year. For purposes of this measurement, the taxable capital of all associated companies is considered. The small business deduction will be fully eliminated for CCPCs (and associated CCPCs) with taxable capital of \$15 million or more.

This change is effective for taxation years ending after May 1, 2014. For taxation years that straddle May 1, 2014, the change will be pro-rated.

### Tax on Aviation Fuel

Today's budget proposes to increase the tax rate on aviation fuel by one cent per litre each year for four years, starting in 2014. By 2018, the rate will be 6.7 cents per litre, up from its current rate of 2.7 cents per litre. The tax rate on aviation fuel has not changed since 1992.

The one cent per litre increase for 2014 will be effective the day after the required changes to the *Gasoline Tax Act* receive Royal Assent. Subsequent increases will come into effect on April 1 of each year, starting in 2015. The Ministry of Finance promises to work with the Ministry of Transportation to provide relief to remote and northern communities, and other vulnerable areas.

### Registration Requirements for Road-Building Machines

Under current law, the *Fuel Tax Act* exempts diesel fuel used in unlicensed commercial vehicles, such as road-building machines, from fuel tax. The budget proposes changes to the *Highway Traffic Act* to require road-building machines that use public roads and highways to be registered and licensed. Following such changes, road-building machines will no longer be exempt from fuel tax. It is proposed that this change will be in place by 2016.

### Review of Business Tax Expenditures

Today's budget announced a review of training tax credits for large businesses, with the intention of limiting these tax credits to the amount of income tax paid by such businesses, while maintaining the refundable nature of such credits for smaller businesses. The training credits currently offered include the Apprenticeship Training Tax Credit and the Co-operative Education Tax Credit. Today's budget also confirmed the ongoing review of tax support for research and development announced in the *2013 Ontario Economic Outlook and Fiscal Review*.

The Ontario government is continuing with its review of Ontario's business support programs as announced in the 2013 budget. A report from the Technical Panel charged with this review is expected later this spring and will include a framework for ongoing evaluation.

### **Corporate Tax Avoidance**

Today's budget confirmed the intention of the government to introduce legislative amendments to the *Taxation Act, 2007*, to parallel the federal and Québec government's requirements to report aggressive tax transactions. The Ontario changes would require corporations in Ontario to disclose aggressive tax avoidance transactions to the federal government, who administers Ontario's corporate taxes.

### **Enhanced Audit Activity**

The Ontario Ministry of Finance administers the collection of Employer Health Tax, Tobacco Tax and Gasoline and Fuel Tax. The government announced in this budget the additional allocation of resources to its Flexible and Integrated Risk System, FAIRS, program to identify high-risk audit cases across several tax statutes, including those named above. This represents the third year in a row that new compliance activities have been introduced.

## **OTHER MEASURES**

### **Tobacco Tax**

Effective on May 2, 2014, Ontario tobacco tax will increase from 12.350 cents per cigarette to 13.975 cents per cigarette. This represents an increase of \$3.25 per carton of 200 cigarettes. There will be no change to the tobacco tax rate for cigars.

### **Land Transfer Tax**

Today's budget proposes to introduce a general anti-avoidance rule for purposes of the *Land Transfer Tax Act*. This change will be applicable to avoidance transactions that are completed after May 1, 2014, and also to transactions that are part of a series of transactions that is completed after May 1, 2014.

### **Tax Credit for Farmers who Donate to Community Food Programs**

Under the *Local Food Act, 2013*, which received Royal Assent on November 6, 2013, a new non-refundable income tax credit will be available to farmers who donate food to community food programs, including food banks. This donation will be calculated as 25% of the value of the food donated and is effective for donations made after December 31, 2013. The budget confirms that the government will bring forward regulations to implement the credit.

### **Property Tax Exemption for Hospices**

The budget announced regulatory amendments to clarify the scope of the property tax exemption for facilities providing supporting services for the care of the terminally ill.

## Retirement Saving Initiatives

With a commitment to ensuring there is a strong and secure retirement income system for Ontarians, the government has undertaken a strategy to modernize the retirement income system. To support Ontarians without workplace pension plans, the government plans to move forward with a mandatory pension plan – the proposed Ontario Retirement Pension Plan. This plan will build on the strengths of the Canada Pension Plan. As well, the government will introduce a legislative framework for pooled registered pension plans or PRPPs. The framework for PRPPs in Ontario will be broadly consistent with the federal government’s legislative model, which has been adopted by various provinces.

## HOW ONTARIO COMPARES

The following chart compares top personal and corporate tax rates and sales taxes for all provinces and territories, as announced to May 1, 2014.

	Top 2014 Personal Rates %	2014 Corporate Rates			2014 Provincial Sales Tax %
		General %	M&P %	Small Business %	
B.C.	45.80	26.00	26.00	13.50	7.00
Alta.	39.00	25.00	25.00	14.00	-
Sask.	44.00	27.00	25.00	13.00	5.00
Man.	46.40	27.00	27.00	11.00	8.00
Ont.	49.53/47.97 <sup>(1)</sup>	26.50	25.00	15.50	8.00 <sup>(5)</sup>
Qué.	49.97	26.90	26.90	19.00	9.975 <sup>(6)</sup>
N.B.	46.84	27.00	27.00	15.50	8.00 <sup>(5)</sup>
N.S.	50.00	31.00	31.00	14.00	10.00 <sup>(5)</sup>
P.E.I.	47.37	31.00	31.00	15.50	9.00 <sup>(5)</sup>
N.L.	42.30	29.00	20.00	15.00 <sup>(2)</sup>	8.00 <sup>(5)</sup>
Yukon	42.40	30.00	17.50	15.00 <sup>(3)(4)</sup>	-
N.W.T.	43.05	26.50	26.50	15.00	-
Nunavut	40.50	27.00	27.00	15.00	-

- (1) The top rate applies to taxable income in excess of \$220,000. The tax rate on taxable income over \$150,000, but not exceeding \$220,000 will be 47.97%.
- (2) The small business rate will decrease to 14% effective July 1, 2014.
- (3) The small business rate will decrease to 14% effective July 1, 2014.
- (4) The tax rate for M&P profits eligible for the small business deduction is 13.5%.
- (5) As part of the HST (combined rates are 15% in Nova Scotia, 14% in Prince Edward Island and 13% in Ontario, New Brunswick and Newfoundland & Labrador).
- (6) The QST system is harmonized with the GST, though two separate tax systems remain – the GST and the amended QST.

The information in this publication is current as of May 1, 2014.

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