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Ontario Budget Commentary

March 25, 2010

Introduction

Finance Minister Dwight Duncan delivered Ontario's 2010 Budget on March 25, 2010. The Budget is projecting a deficit of \$21.3 billion in 2009-10, decreasing to \$19.7 billion in 2010-11. The Budget puts forward a plan to cut the deficit in half within five years and to eliminate it in eight years.

As previously announced, effective July 1, 2010 Ontario will harmonize the current 8% Retail Sales Tax (RST) with the federal 5% Goods and Services Tax (GST) to create a single 13% Harmonized Sales Tax (HST).

There are very few tax related measures included in the Budget. The details are summarized below.

Personal Taxes

Tax Rates

The Budget proposes no changes to personal income tax rates. Accordingly, the top marginal rates for 2010 are as follows:

Type of Income	Federal	Ontario	Total
Eligible Dividends	15.9%	10.7%	26.6%
Non-eligible Dividends	19.6	13.0	32.6
Capital Gains	14.5	8.7	23.2
Ordinary Income	29.0	17.4	46.4

Individual Tax Credits

Ontario Property Tax Credit (OPTC)

The Budget proposes to convert the existing OPTC to the Ontario Energy and Property Tax Credit (OEPTC), effective starting in 2011 based on 2010 personal income tax returns. The OEPTC will be paid quarterly. The timing of the quarterly payments will be determined after consultation with social policy groups. The budget documents provide no details on the computation of this credit.

Northern Ontario Energy Credit (NOEC)

The Budget introduces the NOEC, in recognition of the higher cost of energy to residents of Northern Ontario. The NOEC will be a refundable credit of up to \$130 for single individuals and \$200 for a family (including single parents). The credit will be income tested. For single taxpayers, the credit will start to

be phased out where income exceeds \$35,000 and eliminated where income exceeds \$48,000. For families, these thresholds will be \$45,000 and \$65,000 respectively. For 2010, eligible northern residents will be required to apply to the Ontario Ministry of Revenue and will receive the NOEC in two instalments, in the fall of 2010 and early 2011. For subsequent years, the credit will be paid quarterly along with the OEPTC. The NOEC will be available to residents of the districts of Algoma, Cochrane, Kenora, Manitoulin, Nipissing, Parry Sound, Rainy River, Sudbury, Thunder Bay and Timiskaming.

Corporate Taxes

Tax Rates

The Budget proposes no changes to Ontario corporate income tax rates. Accordingly, the combined federal and Ontario corporate income tax rates will be as follows:

	General	M&P	Small Business
Current	32.0%	30.0%	16.5%
July 1 – December 31, 2010	30.0	28.0	15.5
January 1 – June 30, 2011	28.5	26.5	15.5
July 1 – December 31, 2011	28.0	26.5	15.5
January 1 – June 30, 2012	26.5	25.0	15.5
July 1, 2012 – June 30, 2013	26.0	25.0	15.5
July 1, 2013	25.0	25.0	15.5

Sales Tax Harmonization

General

The 2009 Budget announced that, effective July 1, 2010, Ontario will introduce a value-added tax. This tax will be combined with the federal GST to create a federally administered single sales tax or HST. The Ontario value-added tax will replace the existing Ontario RST. The HST will have a 13% rate representing a 5% federal portion and 8% Ontario portion (the same rate as the current RST). The HST will be largely consistent with the GST. The HST will tax a wide range of goods and services but will not be charged on items such as basic groceries, prescription drugs and medical devices. Businesses making taxable or zero-rated sales will generally be able to claim input tax credits for the HST paid on their purchases.

In addition to various transitional and relief measures announced in the 2009 Budget, this Budget proposes the following additional measures:

RST Refunds and Rebates

The Budget proposes that vendors will be allowed to provide refunds of RST to purchasers after October 31, 2010, other than for returned goods. Where goods are purchased before July 1, 2010 and returned to the vendor after October 31, 2010, RST refunds will be claimable by the purchaser directly from the Ontario Ministry of Revenue.

Where a purchaser has paid both RST and HST on goods and/or services acquired after June 30, 2010, a rebate of the RST will be available to the purchaser to eliminate the double taxation.

RST Exemptions

Effective July 1, 2010, multi-jurisdictional vehicles will not be subject to RST or “exit tax” when they ceased to be registered under the International Registration Plan.

RST will continue to apply after June 30, 2010 to private sales of used vehicles. There is currently an exemption for gifts of used vehicles between certain family members which will be extended to include gifts between siblings after June 30, 2010.

RST Vendor Compensation

The original 2009 HST proposals eliminated RST vendor compensation effective March 31, 2010. The Budget proposes to extend RST vendor compensation to June 30, 2010. A maximum of \$375 will be available for the April 1 to June 30, 2010 collection period.

The HST transitional rules include a credit intended to assist small business in transitioning to the HST. The credit is to be based on taxable sales for a 12 month period. The Budget proposes to allow the Province to prescribe the 12 month period for this purpose.

Insurance Premiums

Insurance premiums currently subject to the RST will continue to be subject to RST after June 30, 2010. The Budget proposes that vendors of such insurance continue to be eligible for RST vendor compensation of up to \$1,500 annually.

In addition, it is proposed that certain insurance-related costs and fees, such as administration fees for benefit plans are exempt from RST. This will ensure that such amounts are not subject to both RST and HST.

Tobacco Tax Act

With the introduction of the HST, tobacco retailers will no longer be able to obtain vendor's permits under the *Retail Sales Tax Act*. As a result, effective July 1, 2010, they will be required to obtain a retail dealer's permit under the *Tobacco Tax Act*.

Land Transfer Tax Act

To facilitate reorganization of registered charities, certain transfers of land will be exempt from land transfer tax, effective for transfers after March 25, 2010. Transfers from trustees to a non-share capital corporation or between two such corporations will be exempt provided that the recipient corporation will be continuing the same charitable purpose and there is no consideration other than the assumption of existing liabilities on the land.

Concordance with Federal Measures

The Budget announces the intention of Ontario to adopt the following previously announced federal measures:

- Rollover on death of certain Registered Retirement Savings Plan, Registered Retirement Income Fund and Registered Pension Plan proceeds to a Registered Disability Plan of a qualifying beneficiary
- The ability of single parents to tax the Universal Child Care Benefit in a child's hands
- The elimination of eligibility of costs for purely cosmetic medical procedures for the medical expense credit
- Provisions related to scholarships
- Provisions related to employee stock options including the elimination of the deferral for public company options
- The deduction for US social security benefits
- Overhaul of the disbursement quota system for charities
- Capital cost allowance system changes for clean energy generation, set-top boxes and Canadian renewable and conservation expenses

In addition, the federal Budget of March 4, 2010 announced the federal government's intention to explore ways of streamlining the tax system for

corporate groups. Possibilities include a formal loss transfer system and consolidated returns. The Budget applauds this initiative. Furthermore, it urges the federal government to ensure corporate tax losses are utilized in the province in which they arose.