

# Tax Memo

## 2010 Ontario Budget: Not Much New

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### Introduction

On Thursday, March 25, 2010, Ontario's Minister of Finance, Dwight Duncan, presented the province's 2010 budget. The budget does not change personal income tax rates or previously announced corporate income tax rate reductions. It confirms that a federally administered harmonized sales tax will replace the retail sales tax on July 1, 2010, and provides additional rules to ease the transition. Few other tax measures are included.

For more information on how the budget will affect you or your corporation, please contact your PricewaterhouseCoopers adviser or any of the individuals listed on our website at [www.pwc.com/ca/taxcontacts](http://www.pwc.com/ca/taxcontacts).

### Business Tax Measures

#### Corporate income tax rates

The budget does not revise corporate income tax rates. Previously announced decreases to these rates follow.

		General rate	M&P rate	Small business rate	Small business deduction surtax rate <sup>2</sup>	
					General	M&P
Effective date <sup>1</sup>	Before July 1, 2010	14%	12%	5.5%	4.25%	3.25%
	July 1, 2010	12%				
	July 1, 2011	11.5%	10%	4.5%	0%	
	July 1, 2012	11%				
	July 1, 2013	10%				

1. Rates are pro-rated for taxation years straddling the effective date.

2. A surtax claws back the benefit of the small business deduction when taxable income of associated corporations exceeds \$500,000 and eliminates it completely once taxable income, on an associated basis, reaches \$1,500,000. The surtax will be eliminated on July 1, 2010.

## Combined corporate income tax rates

The following combined federal/Ontario rates apply to December 31 year ends:

	General <sup>1</sup>	M&P	Canadian-controlled private corporations			
			Active business income		Investment income	
			to \$500,000	\$500,000 to \$1,500,000		
			Non-M&P	M&P		
2009	33%	31%	16.5%	37.25%	34.25%	48.67%
2010	30.99%	28.99%	16%	33.10%	30.60%	47.66%
2011	28.25%	26.5%	15.5%	28.25%	26.5%	46.41%
2012	26.25%			26.25%		45.92%
2013	25.50%	25%		25.50%	25%	45.16%
2014	25%			25%		44.67%

1. The rates do not apply to the income of credit unions, most deposit insurance corporations, mutual fund corporations, mortgage investment corporations and investment corporations.

## Capital taxes

The budget does not revise capital tax rates. Capital tax:

- was eliminated on January 1, 2007, for certain manufacturing and resource corporations; and
- will be eliminated on July 1, 2010, for other corporations.

## Corporate group taxation

The 2010 federal budget announced that the federal government will explore whether the tax system could be improved by new rules for the taxation of corporate groups, such as the introduction of a formal system of loss transfers or consolidated reporting.

Ontario will work with the federal government to explore these options and how they will affect provincial tax and interprovincial income allocation. In particular, the province wants to ensure that tax losses are used by a corporation in the province where the loss occurs.

## Personal Tax Measures

### Personal income tax rates

#### Top 2010 personal tax rates

The budget does not change personal tax rates. Top combined 2010 personal tax rates are outlined in the following table.

(Taxable income above \$127,021)	Ordinary income & interest	Capital gains	Canadian dividends	
			Eligible	Non-eligible
<b>Federal only</b>	<b>29.00%</b>	<b>14.50%</b>	<b>15.88%</b>	<b>19.58%</b>
Alberta	39.00%	19.50%	15.88%	27.71%
British Columbia	43.70%	21.85%	21.45%	33.71%
Manitoba	46.40%	23.20%	25.09%	38.21%
New Brunswick	43.30%	21.65%	19.46%	30.83%
Newfoundland and Labrador	44.50%	22.25%	24.37%	32.71%
Non-resident <sup>1</sup>	42.92%	21.46%	23.50%	28.98%
Northwest Territories	43.05%	21.53%	19.81%	29.65%
Nova Scotia	48.25%	24.13%	29.80%	33.06%
Nunavut	40.50%	20.25%	23.64%	28.96%
<b>Ontario</b>	<b>46.41%</b>	<b>23.20%</b>	<b>26.57%</b>	<b>32.57%</b>
Prince Edward Island	47.37%	23.69%	25.95%	39.66%
Quebec	48.22%	24.11%	30.68%	36.35%
Saskatchewan	44.00%	22.00%	21.64%	30.83%
Yukon	42.40%	21.20%	18.80%	30.49%

1. Non-resident rates for interest and dividends apply only in limited circumstances.

The table below shows the combined federal and Ontario income tax payable at various income levels and the additional tax due to the health premium.

Taxable income	Combined tax <sup>1</sup> (excluding the Health Premium)		Addition due to Health Premium	
	2009	2010	2009	2010
	\$500,000	\$212,888	\$212,483	
\$250,000	\$96,864	\$96,459		
\$150,000	\$50,454	\$50,049		
\$100,000	\$28,037	\$27,655		
\$50,000	\$9,497	\$9,177	\$900	\$750
\$30,000	\$4,230	\$4,006	\$600	\$300

1. The amounts assume that all income is either interest or ordinary income (such as salary) and only the basic tax credit is claimed.

### Dividend tax rates

As a result of previously announced changes, top personal tax rates on dividends will increase as follows:

	Canadian dividends	
	Eligible	Non-eligible
2009	23.06%	31.34%
2010	26.57%	
2011 <sup>1</sup>	28.19%	32.57%
2012 <sup>1</sup>	29.54%	

1. Assumes top federal/Ontario marginal income tax rate remains 46.41%.

### Personal tax credits

The budget introduces the following personal tax credits:

- Ontario Energy and Property Tax Credit** – The Ontario Property Tax Credit is converted into the Ontario Energy and Property Tax Credit, effective 2010. The credit will be paid quarterly, except for 2010, when it will be paid in 2011 (after 2010 tax returns have been filed). Details are forthcoming.

- **Northern Ontario Energy Credit** – Starting in 2010, northern Ontario residents who pay rent or property tax for their principal residence will be eligible for a new refundable tax credit, the Northern Ontario Energy Credit. For 2010, the credit will be paid in the fall of 2010 and early 2011. Subsequently, it will be paid quarterly. The details follow.

	Maximum annual credit	Income at which credit is:	
		Reduced	Eliminated
Single people	\$130	\$35,000	\$48,000
Families	\$200	\$45,000	\$65,000

## Ontario Sales Tax Harmonization

As previously announced, commencing July 1, 2010, Ontario's Retail Sales Tax (RST) will be converted to a value-added tax. It will be combined with the federal Goods and Services Tax (GST) to create a federally administered harmonized sales tax (HST). The HST will have a combined rate of 13%. For more on the transitional measures and insights on the effect of harmonization, go to [www.pwc.com/ca/harmonization](http://www.pwc.com/ca/harmonization).

The budget proposes the following measures to ease the transition to the HST:

- **Shortened RST collection period** – Compensation of up to \$375 will be extended to RST vendors for the April 1, 2010, to June 30, 2010, shortened collection period.
- **Small businesses** – Ontario will be able to prescribe the 12-month period for calculating the \$2 million taxable sales threshold for purposes of the small business transition assistance.
- **RST refunds** – Vendors will be permitted to provide RST refunds to purchasers after October 31, 2010, other than for returned goods. Purchasers can claim a refund directly from the Ontario Ministry of Revenue for goods that are purchased before July 1, 2010, but are returned to the vendor after October 31, 2010.
- **Both RST and HST paid** – An RST rebate will be provided to purchasers that pay both RST and HST on goods and services acquired after June 30, 2010.
- **Multi-jurisdictional vehicles** – Multi-jurisdictional vehicles will no longer be subject to RST when they cease to be registered under the International Registration Plan after June 30, 2010.
- **Gifts of used vehicles** – The exemption for gifts of used vehicles between siblings will be available effective July 1, 2010.

## Other Tax Measures

### Retail sales tax on insurance

Certain types of insurance will remain taxable under the *Retail Sales Tax Act* after June 30, 2010. The budget proposals address this.

### Vendor compensation

Vendors of taxable insurance will continue to be eligible for vendor compensation of up to \$1,500 annually. For the transitional year of April 1, 2010, to March 31, 2011, vendor compensation will be:

- April 1, 2010 to June 30, 2010 – up to \$375; and
- July 1, 2010 to March 31, 2011 – up to \$1,125.

### Avoiding double taxation

To ensure that certain costs and fees, such as administration fees for benefit plans, will not be subject to both HST and RST, an RST exemption will be provided.

### Pension reform

Working with the federal and the other provincial governments, Ontario is reviewing the current retirement income system. The focus is on sustainability and options to strengthen the pension system for future pensioners. The budget confirms the province's intention to:

- implement its previously announced initiatives, including its December 2009 reforms;
- consult on regulations relating to pension division on marriage breakdown; and
- finalize an agreement with other Canadian jurisdictions for the regulation and administration of multi-jurisdictional pension plans.

### Land transfers by charities

Certain transfers of land by registered charities after March 25, 2010, will be exempt from the province's land transfer tax. Transfers of land from trustees to a non-share capital corporation, or from one non-share capital corporation to another, will be exempt if:

- the transferee will continue the same charitable purpose for the same members as the transferor; and
- no consideration is paid, other than the assumption of any existing liabilities registered on the land.

It is uncertain whether Toronto will mirror this change in its land transfer tax.

## Tobacco tax

Tobacco retailers that do not hold a vendor's permit on June 30, 2010, must obtain a retail dealer's permit under the *Tobacco Tax Act*. They will no longer be able to obtain a vendor's permit under the *Retail Sales Tax Act*.

## Technical amendments

Ontario will amend its provincial statutes to:

- improve effectiveness and enforcement;
- enhance legislative clarity and flexibility; and
- preserve policy intent.

## Federal harmonization

Measures in the 2010 federal budget that Ontario will automatically adopt, once the relevant federal legislative and regulatory changes are enacted, include changes affecting:

- the tax treatment of employee stock option benefits;
- capital cost allowance; and
- the disbursement quota for charities.

See our *Tax Memo*, "2010 Federal Budget: Focus on Fairness" at [www.pwc.com/ca/budget](http://www.pwc.com/ca/budget) for more information.

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