

# Ontario increases personal taxes on some dividends and studies corporate tax incentives

November 7, 2013

## *In brief*

According to Ontario's fall economic statement, presented today by Finance Minister Charles Sousa, the government will study:

- an incentive that rewards research and development (R&D) incremental spending
- 'pay or play' tax incentives

Corporate tax rates are unchanged, but top personal income tax rates on non-eligible dividends will increase, commencing 2014.

## *In detail*

### **Corporate tax measures**

#### *Support for business investment*

Ontario will study new tax measures to encourage business investment. These include:

- replacing existing R&D tax credits with an incentive that rewards R&D incremental spending, which may mean that the future R&D incentives will be calculated on expenditures above a certain base amount
- 'pay or play' tax incentives, such as:
  - a special corporate tax that could be eliminated

or reduced by investing in new equipment or other eligible investment expenses

- a payroll tax that could be eliminated or reduced by employer investments in employee training and/or by funding training programs

In addition, Ontario reiterated that it will harmonize with the 2013 federal budget measure that extends accelerated capital cost allowance for manufacturing and processing machinery and equipment to property acquired before 2016.

#### *Apprenticeship training tax credit*

The 2013 Ontario budget announced that, for expenditures incurred after March 31, 2014, the following apprenticeship trades will no longer be eligible for the apprenticeship training tax credit:

- Technical Support Agent (634a)
- Inside Sales Agent (634d)
- Customer Care Agent (634e)

The economic statement comments that transitional support will be available for employers who hired apprentices in these trades

before May 3, 2013, and will last for up to 24 months from the hiring date.

## Personal tax measures

### Dividend tax rates

Starting 2014, Ontario proposes to:

- change how dividend tax rates are determined by calculating the Ontario surtax before deducting dividend tax credits from Ontario tax
- maintain the non-eligible dividend tax credit rate at 4.5%
- increase the eligible dividend tax credit rate from 6.4% to 10%

As a result of these changes and previously-announced federal changes for non-eligible dividends, dividend tax rates will change as shown in the table.

The changes mean that, from 2013 to 2014, tax rates will generally increase on non-eligible dividends, but will decline on eligible dividends – regardless of income level. The decrease is:

- nominal for individuals who are subject to Ontario's high-earner surtax (taxable income above approximately \$82,000, based on 2013 brackets)
- most significant for individuals who are not subject to any Ontario surtaxes (taxable income below approximately \$70,000, based on 2013 brackets)

### Tax changes affecting dividends

	Non-eligible			Eligible		
	2013	2014		2013	2014	
		Before	After		Before	After
<b>Combined rates</b> > \$509,000 <sup>1</sup>	36.47%	38.60%	40.13%	33.85%	33.82%	
(top taxable income brackets) > \$135,054 <sup>1</sup>	32.57%	34.92%	36.45%	29.54%	29.52%	

1. Indexed for 2014.

### Fresh food donation tax credit

The government is working on a non-refundable tax credit for Ontario farmers that donate surplus fresh food to those in need.

### Tax system review

Ontario will review whether the interaction of the surtax with other personal income tax credits creates inequitable treatment of taxpayers.

It will also consider recommendations recently made by the Institute for Competitiveness and Prosperity, which include reviewing targeted personal tax incentives and the efficiency of the corporate tax system.

As well, the final report of a Technical Panel mandated to review Ontario's business support programs, including tax credits, is expected before the 2014 provincial budget.

Ontario has also pledged to review:

- the provincial land tax (PLT), with respect to concerns of northern municipalities; while the review is underway, 2014 PLT rates will be frozen at 2013 levels
- residential education tax rate policies
- the business education tax (BET) with respect to moving towards a single BET rate

### Pension reform

To improve Ontario's retirement income system, Ontario intends to:

- secure an agreement with the other provinces and the federal government on a Canada Pension Plan enhancement, and if no agreement can be reached, design a 'made in Ontario' solution
- facilitate the use of target benefit plans by clarifying the rules for multi-employer pension plans that provide target benefits, and establishing a framework for single-employer, target benefit plans
- introduce legislation to implement pooled registered pension plans after consulting with interested parties
- allow defined contribution pension plans to pay retirement income directly to retirees
- finalize new regulations on split pensions and asset transfers between pension plans
- propose regulatory changes to allow pension plans to invest in Ontario infrastructure projects and provide plan administrators with greater flexibility to pursue investment strategies

## ***Let's talk***

For a deeper discussion of how these tax issues might affect your business, please contact any of the individuals listed at [www.pwc.com/ca/taxcontacts](http://www.pwc.com/ca/taxcontacts) or the following:

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