

2008 Ontario Budget: Little Tax Relief

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Introduction

On March 25, 2008, Ontario's Minister of Finance, The Honourable Dwight Duncan, presented the province's 2008 budget. The budget does not change personal or corporate income tax rates, but does accelerate the elimination of capital tax for Ontario companies engaged primarily in manufacturing and resource activities. The budget also introduces or enhances several targeted tax incentives. For example, it introduces a 10-year income and minimum tax exemption for qualifying corporations that commercialize intellectual property, and enhances the Ontario Interactive Digital Media Tax Credit and the Ontario Innovation Tax Credit. These and other key tax measures are discussed below.

For more information, please contact your PricewaterhouseCoopers adviser or any of the individuals listed on our website at www.pwc.com/ca/taxcontacts.

Personal Tax Measures

Personal tax rates

The budget does not change Ontario's personal tax rates. Top combined 2008 personal tax rates are outlined in the table on the following page.

Top 2008 Personal Tax Rates

(Taxable income above \$123,184)	Ordinary income & interest	Capital gains	Canadian dividends	
			Eligible	Non-eligible
Federal only	29.00%	14.50%	14.55%	19.58%
Alberta	39.00%	19.50%	16.00%	26.46%
British Columbia	43.70%	21.85%	18.47%	31.58%
Manitoba	46.40%	23.20%	23.83%	37.40%
New Brunswick	46.95%	23.48%	23.18%	35.40%
Newfoundland and Labrador	45.50%	22.75%	28.83%	33.96%
Non-resident¹	42.92%	21.46%	21.53%	28.98%
Northwest Territories	43.05%	21.53%	18.25%	29.65%
Nova Scotia	48.25%	24.13%	28.35%	33.06%
Nunavut	40.50%	20.25%	22.24%	28.96%
Ontario	46.41%	23.20%	23.96%	31.34%
Prince Edward Island	47.37%	23.69%	24.44%	33.61%
Quebec	48.22%	24.11%	29.69%	36.35%
Saskatchewan	44.00%	22.00%	20.35%	30.83%
Yukon	42.40%	21.20%	17.23%	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		Approximate combined tax excluding the Health Premium		Addition due to Health Premium	
		2007	2008 ¹	2007	2008
		\$500,000	\$213,974	\$213,688	\$900
\$250,000	\$97,950	\$97,664			
\$150,000	\$51,540	\$51,254	\$750		
\$100,000	\$28,962	\$28,745			
\$50,000	\$9,915	\$9,841	\$600		
\$30,000	\$4,358	\$4,350	\$300		

1. Changes from 2007 are due to indexing.

Dividend tax rates

The budget confirms that Ontario will maintain its plan to increase its eligible dividend tax credit rate, as shown below. As a result of this increase and federal changes that are effective after 2009, the top combined federal/Ontario tax rate on eligible dividends will be revised as follows:

	Eligible dividends (%)					
	2007	2008	2009	2010	2011	After 2011
Dividend gross-up		45		44	41	38
Dividend tax credit (on grossed-up dividend)	6.7	7	7.4	7.7		
Top combined rate¹	24.64	23.96	23.06	23.65	25.33	26.74

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

Tax relief for seniors

Senior Homeowners' Property Tax Grant

Commencing 2009, senior homeowners will be eligible to receive a property tax grant. The maximum grant of \$250 (\$500 after 2009) can be obtained by seniors who pay at least \$500 in property taxes and have incomes not exceeding \$35,000 for single seniors or \$45,000 for senior couples. The maximum grant will be reduced proportionately when income exceeds these thresholds and will be eliminated once income reaches \$50,000 for single seniors and \$60,000 for senior couples.

Seniors will apply for the grant when filing their 2008 and subsequent income tax returns.

Property and Sales Tax Credits for Seniors

The budget increases the income threshold (\$23,820 for 2007) at which the Ontario Property and Sales Tax Credits for senior couples are reduced. The new threshold will be announced when the federal government finalizes the Old Age Security and Guaranteed Income Supplement amounts for 2008.

Business Tax Measures

Corporate tax rates

The budget does not change Ontario's corporate income tax rates, which will remain as follows.

	2007 and 2008
General rate	14%
M&P rate	12%
Small business rate	5.5%
Small business phase-out range¹	Lower \$500,000 Upper \$1,500,000

1. 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.

Capital taxes

Manufacturing and resource corporations

Capital tax will be eliminated for Ontario companies engaged primarily in manufacturing and resource activities retroactively to January 1, 2007, instead of on January 1, 2008 (as was previously scheduled), for corporations that have employees reporting to a permanent establishment in Ontario on March 25, 2008.

The elimination of capital tax is based on the corporation's salaries and wages related to manufacturing or processing (M&P), mining, logging, farming or fishing activities as a percentage of its total salary and wages in Ontario, as follows:

		Existing	Proposed
% of salaries and wages related to M&P and resource activities	≥50%	Eliminated on January 1, 2008	Eliminated on January 1, 2007
	>20% and < 50%	Reduced proportionately (straight-line) until July 1, 2010, when it will be eliminated	
	≤20%	Eliminated on July 1, 2010	

The government will provide this relief by issuing a refund or offsetting other corporate taxes owing.

Other corporations

The budget does not revise Ontario's capital tax rates for Ontario companies not engaged in manufacturing or resource activities. Therefore, plans to phase out Ontario's capital tax remain as follows:

Effective date ¹		General rate	Financial institutions		
			Taxable capital ≤ \$400 million	Taxable capital > \$400 million	
				Non-deposit taking	Other
Jan. 1, 2007		0.225%	0.45%	0.54%	0.675%
	Jan. 1, 2010	0.15%	0.3%	0.36%	0.45%
	July 1, 2010	Nil			

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

Capital tax deduction

The budget does not change Ontario's capital tax deduction, which increased as shown:

		Capital deduction
Effective date ¹	Before January 1, 2008	\$12,500,000
	January 1, 2008	\$15,000,000

1. The capital tax deduction is pro-rated for taxation years straddling the effective date.

Ontario Tax Exemption for Commercialization (OTEC)

The budget introduces the OTEC, a 10-year income and minimum tax exemption for qualifying corporations that commercialize intellectual property (e.g., bio-economy/clean, advanced health, telecommunications, computer and digital technologies) developed by qualifying Canadian universities, colleges or research institutes.

A qualifying corporation must be incorporated in Canada after March 24, 2008, and before March 25, 2012, and derive all or substantially all of its income from eligible

commercialization activities carried on in Ontario. These activities include the development of prototypes and the marketing and manufacturing of products related to the intellectual property.

Ontario Interactive Digital Media Tax Credit (OIDMTC)

The OIDMTC is a refundable tax credit that reduces the cost of developing interactive digital media products, such as educational CD-ROMs and games, in Ontario. The budget enhances the OIDMTC by:

- increasing the rate from 20% to 25% for expenditures incurred after March 25, 2008, and before January 1, 2012:
 - by qualifying corporations with gross revenues exceeding \$20 million and total assets exceeding \$10 million; or
 - for fee-for-service work;
- extending the 30% rate for small corporations (annual gross revenues up to \$20 million and total assets up to \$10 million) for expenditures incurred after December 31, 2009, and before January 1, 2012; and
- increasing the eligibility period for eligible labour expenses from two years to three, for digital media products completed after March 25, 2008.

Ontario Innovation Tax Credit (OITC)

The budget enhances Ontario's scientific research and experimental development (SR&ED) incentives by paralleling enhancements to the federal SR&ED tax credit proposed in the 2008 federal budget. The Ontario enhancements, which will be introduced after the implementing federal legislation is enacted, increase the thresholds used to determine the OITC for taxation years ending after February 25, 2008, as follows:

		Existing	Proposed
OITC expenditure limit		\$2 million	\$3 million
Phase-out range	Taxable income	\$400,000 to \$600,000	\$400,000 to \$700,000
	Taxable capital	\$25 million to \$50 million	

Phase-in rules will apply and will parallel the federal amendments.

Corporate tax harmonization

The budget provides a reminder that, commencing taxation years ending after December 31, 2008, the Canada Revenue Agency (CRA) will administer Ontario's corporate income tax, capital tax, Corporate Minimum Tax

(CMT) and Special Additional Tax on life insurers. The CRA has started to collect Ontario corporate income tax instalments for taxation years ending in 2009.

Furthermore, starting April 3, 2008, federal and Ontario audits, rulings, objections and appeals for all pre-2009 taxation years will be integrated.

Corporate tax instalments

For taxation years ending after 2008, Ontario will adopt federal corporate tax instalment rules. These rules:

- permit small Canadian-controlled private corporations to remit instalments quarterly; and
- exempt corporations paying up to \$3,000 federal tax in the current or previous year from the requirement to make instalments.

Business Education Taxes (BET)

The 2007 budget reduced BET by introducing a target maximum BET rate of 1.6% to be phased in by 2014. The 2008 budget accelerates the full BET reduction for northern Ontario businesses to 2010, as follows:

	Business Education Tax ¹ for Northern Ontario Businesses ²			
	Existing		Proposed	
	Annual Commercial Ceiling Rate	Annual Industrial Ceiling Rate	Annual Commercial Ceiling Rate	Annual Industrial Ceiling Rate
2008	2.5%	3%	2.35%	2.75%
2009	2.35%	2.75%	2.05%	2.3%
2010	2.2%	2.5%	1.6%	
2011	2.05%	2.25%		
2012	1.9%	2%		
2013	1.75%			
2014	1.6%			

1. BET annual ceiling rates may need to be recalculated in 2009 and future years to adjust for the effect of reassessment-related changes. The target maximum BET rate may also have to be adjusted to account for these changes.
2. Districts of Algoma, Cochrane, Kenora, Manitoulin, Nipissing, Parry Sound, Rainy River, Sudbury, Thunder Bay and Timiskaming.

Retail Sales Tax (RST) Measures

RST exemptions

The budget extends the following temporary exemptions:

- **Destination marketing fees** – extended to fees billed before July 1, 2010.
- **Admissions to live theatres of not more than 3,200 seats** – made permanent, effective April 1, 2008.

- **Qualifying new ENERGY STAR household appliances and light bulbs** – extended to:
 - appliances purchased, rented or leased before September 1, 2009, that are delivered before October 1, 2009; and
 - light bulbs purchased before September 1, 2009.
- **Bicycles and related safety equipment** – extended to purchases made before January 1, 2011.
- **Nicotine replacement therapies** – made permanent and, for purchases made after March 25, 2008, the qualifying therapies are broadened.

Newspapers

As announced in December 2007, publications with smaller circulation or less frequent publishing schedules will qualify for the RST exemption for newspapers. This change will be retroactive to January 1, 2000.

Containers

In response to the decision in **Procter & Gamble v. The Minister of Finance (Ontario)**, effective May 7, 1997, amendments will confirm that RST is exigible on:

- purchases of containers and other packaging, storing and shipping items intended to be returned for reuse in the packaging, storing and shipping of goods; and
- containers and other items provided as a promotional distribution.

Other Tax Measures

Property assessment increases

The 2007 budget introduced a four-year property reassessment cycle and a mandatory phase-in of assessment increases for residential properties. The 2008 budget expands the mandatory phase-in to all property classes, including commercial, industrial and multi-residential.

Transfers from family farm corporations

A land transfer tax exemption will be provided to transfers of farmland from family farm corporations to individual family members made after March 25, 2008.

Tobacco tax

To strengthen its tobacco-related enforcement activities, Ontario will broaden registration requirements and provide additional penalties.

Long-term care homes

Ontario will review the property tax treatment of long-term care homes that were established under the *Charitable Institutions Act* to clarify and maintain eligibility for the tax exemption that has been provided to these facilities.

Succession duties

Succession duties were eliminated in 1979. Legislation will be repealed or amended to complete the process of bringing these duties to an end.

Technical amendments

Ontario will amend its provincial statutes to improve effectiveness and enforcement, as well as to enhance legislative clarity and flexibility.

Federal harmonization

The budget states that Ontario will automatically adopt several 2008 federal budget measures, once the relevant federal legislative and regulatory changes are enacted.

Measures that will be paralleled include:

- adoption of the Tax-Free Savings Account;
- capital cost allowance enhancements;
- changes affecting:
 - charitable donations; and
 - the excess corporate holdings regime for private foundations; and
- changes to the Registered Education Savings Plan program.

See our *Tax Memo*, “2008 Federal Budget – Treading Softly in Old Shoes” at www.pwc.com/ca/budget for more information.

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