

**ONTARIO  
PROVINCIAL  
BUDGET** **COMMENTARY**  
**2011**



Finance Minister Dwight Duncan delivered Ontario's 2011 Budget on March 29, 2011. The Budget is projecting a deficit of \$16.7 billion in 2010-11, \$3 billion lower than projected a year ago, and decreasing to \$16.3 billion in 2011-12. The 2010 Budget put forward a plan to cut the deficit in half within five years and to eliminate it in eight years. The government remains on track to meet the fiscal targets outlined in the 2010 Budget beyond 2012-13. This includes steadily declining deficits and a return to a balanced budget by 2017-18.

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 2011 are as follows:

| <b>Type of Income</b>  | <b>Federal</b> | <b>Ontario</b> | <b>Total</b> |
|------------------------|----------------|----------------|--------------|
| Eligible Dividends     | 17.7%          | 10.5%          | 28.2%        |
| 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 Trillium Benefit (OTB)***

Currently, three refundable tax credits are available – the Ontario Sales Tax Credit (OSTC), the Ontario Energy and Property Tax Credit (OEPTC) and The Northern Ontario Energy Credit (NOEC). These credits are intended to provide Ontario low- to moderate-income families with relief for taxes and energy costs. These credits are to be paid on a quarterly basis starting this summer. The Budget proposes to combine the OSTC, OEPTC and NOEC into one credit, the OTB, effective July, 2012. In addition, the OTB will be paid monthly instead of quarterly, to assist eligible taxpayers to better manage their household budgets. The Budget proposes no changes to the actual computation of the credits.

#### ***Ontario Clean Energy Benefit (OCEB)***

The OCEB was introduced on November 18, 2010 and became effective January 1, 2011. It is a 10 per cent benefit applied on hydro billings and is intended to assist with rising energy costs. The Budget made no changes to the OCEB.

## ***Ontario Child Care Supplement for Working Families (OCCS)***

The Budget proposes to consolidate the OCCS with Ontario Child Benefit (OCB) payments on a per-child basis. If the OCCS entitlement is higher than the OCB payment for a particular child, the incremental OCCS benefit would be received. As a result, all families will receive the extra OCCS benefit for each eligible child under age seven.

## **CORPORATE TAXES**

### ***Tax Rates***

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

|                              | <b>General</b> | <b>M&amp;P</b> | <b>Small Business</b> |
|------------------------------|----------------|----------------|-----------------------|
| Current                      | 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                  |

### ***Ontario Book Publishing Tax Credit (OBPTC)***

The OBPTC is a 30 per cent refundable tax credit available to Ontario book publishing corporations. It is available on qualifying expenditures for publishing and promoting a book by a Canadian author in adult or children's fiction, non-fiction, poetry or biography. Currently marketing expenditures must be incurred in a twelve-month period to be eligible for the OBPTC. The Budget proposes that expenditures incurred after March 29, 2011 will qualify for the OBPTC if they are incurred in a period beginning one year before and ending one year after the date of publication of the book.

## **TAX ADMINISTRATION AND COLLECTION**

A number of measures designed to improve tax administration and collection were introduced.

Administration of the Estate Administration Tax, otherwise known as probate taxes, will be integrated with the Ministry of Finance's audit and verification functions effective January 1, 2013.

Amendments will be proposed to the Retail Sales Tax Act to provide for the withholding of clearance certificates required for sales under the Bulk Sales Act until tax debts under a number of additional provincial statutes are paid or secured. The statutes involved are: Alcohol and Gaming Regulation and Public Protection Act, 1996; Fuel Tax Act; Gasoline Tax Act; Race Tracks Tax Act and Tobacco Tax Act. These changes would generally apply to bulk sales completed on or after July 1, 2011, with transitional relief for bulk sales under written agreements entered into on or before March 29, 2011.

Amendments will be made to various Ontario tax statutes to:

- Allow recovery of third-party costs incurred in collecting tax debts
- Extend the garnishment period for loans and advances from 90 to 365 days
- Standardize directors' liability provisions
- Provide deeming rules for the receipt of notices of demand and requirement sent by registered mail
- Allow appeals to be dismissed if the appellant has not set the appeal down for trial within seven years

## **WINE AND BEER PROMOTIONAL PRODUCT**

Budget proposals will provide manufacturers an annual exemption from the wine and beer taxes imposed under the Alcohol and Gaming Regulation and Public Protection Act for up to 10,000 litres of wine, wine coolers and beer distributed free-of-charge. The exemption will be retroactive to July 1, 2010. Where the manufacturer's sales year straddles the implementation date, the limit will be pro-rated. Beer distributed without charge will not qualify for the small beer manufacturer's tax credit.

## **MINING TAX ACT**

The Mining Tax Act will be amended to allow Ontario mining operators who are reporting in a functional currency for income tax purposes to elect to file their Ontario mining tax returns in the same currency. Functional currency reporting will continue until the election is revoked or the operator ceases to meet the criteria for functional currency reporting for either income tax or mining tax purposes. This measure, which is effective for taxation years beginning after December 31, 2010, is intended to reduce administrative burden.

## **CONCORDANCE WITH FEDERAL MEASURES**

In November 2010, the federal government released a public consultation paper in respect of a formal system for the taxation of corporate groups. The Budget documents provide a reminder that the provinces have the responsibility for key government programs such as health and education and are legislatively entitled to tax economic activity within their borders. The Ontario government's view is that any changes should be to increase the efficiency and competitiveness of the Canadian tax system while ensuring the provinces receive revenues to which they are entitled.

A federally appointed panel is currently reviewing the effectiveness for government support for innovation including Scientific Research and Experimental Development (SR&ED) incentives. While the Budget applauds and supports this initiative to enhance effectiveness, it cautions that the fairness and impartiality provided through SR&ED tax support should be maintained.



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