



# Canadian tax alert

## 2012 Ontario budget highlights

March 27, 2012

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### Budget highlights

Minister of Finance Dwight Duncan presented the 2012 Ontario budget this afternoon. The following is a summary of the tax highlights contained in the budget.

### Economic context

- The 2012 Budget anticipates a provincial deficit for fiscal 2011-2012 of \$15.3 billion, which is projected to be \$1.0 billion lower than outlined in the 2011 Budget.
- A provincial deficit of \$15.2 billion is projected in 2012-13, \$13.3 billion in 2013-14, \$10.7 billion in 2014-15 and a balanced budget by 2017-18.
- The Ministry of Finance is projecting real GDP growth of 1.7% in 2012, 2.2% in 2013, 2.4% in 2014 and 2.5% in 2015.

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### Measures concerning business

- The government is proposing to freeze the general corporate income tax rate at 11.5%. Under the Tax Plan for Jobs and Growth, Ontario's general corporate income tax rate has decreased from 14% in 2009 to 11.5% and was scheduled to fall to 11% on July 1, 2012 and to 10% on July 1, 2013. These corporate income tax rate reductions would resume in 2017-18 at which time a balanced budget is projected. It is estimated that this measure will save almost \$1.5 billion over the next three years.
- Similarly, the Budget proposes to temporarily freeze the Business Education Tax (BET) reduction plan beginning in 2013; however the BET rate reductions already implemented will not be reversed. The government has committed to resuming the BET rate reductions at the time of the planned balanced budget in 2017-18. In 2007, the government announced it would cut high BET rates over a seven year period to address the property tax burden on Ontario businesses.
- The government previously introduced several mining tax incentives over the years that were designed to encourage investment when the corporate income tax rates were high. Since Ontario

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mining operations have benefited from those incentives, the government is proposing to work with stakeholders in reviewing the current system to ensure Ontario receives fair compensation for its non-renewable resources.

- Ontario will continue to review the effectiveness of tax credits for research and development (R&D) supporting innovation and agrees with the federal panel that there is a need for greater federal-provincial collaboration regarding R&D tax support. The federal government is reviewing recommendations that would reduce federal tax support and simplify the Scientific Research and Experimental Development (SRED) tax credit program. Any changes to the SRED program would impact Ontario businesses and the provincial tax system.
- To assist in mitigating the impact of tax avoidance transactions and in identifying those who facilitate or participate in tax evasion schemes, Ontario will consider implementing various measures used by Quebec to fight aggressive tax planning in the province. In addition, the government will also remain diligent in ensuring that income and losses are allocated to the province where the underlying economic activity has occurred.
- Ontario will continue to work with the federal government and other provinces to ensure that corporations apply losses in a manner that is fair and reasonable and that upholds the long standing principles that underlie the interprovincial allocation of income. The federal government has an administrative practice that facilitates an informal loss transfer system between corporate group members that are each taxed separately and file separate tax returns. While these transactions are only a timing difference for the federal government, they can have a permanent impact on a province's revenue when losses are transferred across provincial borders.
- Ontario will continue to use federal rulings to assist in determining whether an employee-employer relationship exists to ensure that employers pay their fair share of the Employer Health Tax (EHT). For EHT assessments issued after March 27, 2012, Ontario will change its administrative practice of treating such rulings as binding.
- Ontario proposes to implement measures that would require recipients of government grants and other forms of direct government assistance to be compliant with their tax obligations. As well, the government will expand its procurement requirements to ensure that businesses are compliant with their tax obligations before bidding on projects and contracts where provincial funding is involved.

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### Measures concerning individuals

- The 2011 Budget introduced the Ontario Trillium Benefit (OTB), which combined the Ontario Sales Tax Credit, Ontario Energy and Property Tax Credit and Northern Ontario Energy Credit to better match the payment of these refundable tax credits to when people incur expenses. Starting in July 2012, the OTB will be paid monthly to provide individuals with their 2012 credits based on their 2011 tax return. In the coming year, the government will look at options for providing people with a choice of receiving either monthly payments or a single payment after the year has ended.

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### Sales tax measures

- The government is proposing to shorten the retail sales tax (RST) refund and rebate periods in order to continue to facilitate the wind-down of Retail Sales Tax RST. Proposed amendments would require a taxpayer to apply for refunds and rebates of RST on or before December 31, 2012. Currently, such applications may be made until the time limits for claiming the refunds or rebates have expired, or June 30, 2014, whichever is earlier. The current refund and rebate application periods will continue for RST paid in respect of insurance premiums or private transfers of used vehicles.

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## Other measures and technical amendments

- Amendments will be proposed to various statutes and other technical amendments are proposed to various other statutes, including amendments to the following, Corporations Tax Act, Income Tax Act, Taxation Act, 2007, Employer Health Tax Act, Freedom of Information and Protection of Privacy Act, Fuel Tax Act, Gasoline Tax Act, Land Transfer Tax Act, Mining Tax Act, Provincial Land Tax Act, 2006, Retail Sales Tax Act, and the Tobacco Tax Act.

For further details, we refer you to the [Ministry of Finance website](#).

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