

Canadian tax alert

2015-2016 Ontario budget highlights



Minister of Finance Charles Sousa presented the 2015-2016 Ontario budget in the Legislative Assembly this afternoon. The budget contains initiatives to increase infrastructure investments, to focus on talent and skills, and to continue the introduction of the proposed Ontario pension plan. The following is a summary of the tax highlights contained in the budget.

Fiscal/economic outlook

- The 2014-2015 deficit is estimated to be \$10.9 billion, \$1.6 billion lower than originally forecasted.
- The deficit is projected to be \$8.5 billion in 2015-2016 and \$4.8 billion in 2016-2017.
- The government is committed to a balanced budget in 2017-2018.
- Employment is expected to increase by 1.1% in 2015 and by an average of 1.4% per year for 2016-2018, with the unemployment rate down to 6.3% in 2018.
- Real GDP growth is predicted to rise from 2.2% in 2014 to 2.7% in 2015 but decline to 2.1% by 2018.

Measures concerning business

- The budget proposes several changes to the Apprenticeship Training tax credit for expenditures related to apprentices who started an apprenticeship program after April 23, 2015 as follows:
 - The general tax credit rate will be reduced from 35% to 25% and from 45% to 30% for small businesses.
 - The annual maximum per apprentice will decrease from \$10,000 to \$5,000.
 - The eligibility period will also be reduced from the first 48 months of an apprenticeship program to the first 36 months of the program.
- The Ontario Interactive Digital Media tax credit (OIDMTC) is proposed to be amended to focus the credit on entertainment products and on educational products for children under the age of 12. This change will apply to expenditures incurred after April 23, 2015. However, expenditures incurred before April 24, 2015 on products started before that date may be eligible for relief.
- In addition, the budget proposes to improve the certification process for the OIDMTC by replacing the requirement that at least 90% of a product be developed in Ontario by the corporation claiming the credit with a rule based on the labour costs of the corporation developing the product as follows:
 - The new rule will require 80% of total labour costs for eligible products to be attributable to qualifying wages and qualifying remuneration paid to individuals or corporations that carry on a personal services business.
 - In addition, 25% of total labour costs for eligible products will be required to be attributable to qualifying wages of employees of the qualifying corporation.

This new rule will apply to all products, including those awaiting certification but will not apply to products that were certified before April 24, 2015.

- The budget proposes to reduce the rate of the Ontario Production Services tax credit (OPSTC) from 25% to 21.5% for qualifying production expenditures incurred after April 23, 2015. In addition, the budget proposes the following changes to the tax credit:
 - Ontario labour expenditures will have to be at least 25% of total expenditures.
 - Expenditures incurred by a qualifying corporation on contracts with non-arm's length parties will be limited to amounts that would have been eligible for the credit if the corporation had incurred the expenditures directly.
 - Clarification to ensure that only expenditures incurred after the final script stage to the end of the post-production stage will be eligible for the credit. This amendment will apply to expenditures incurred after June 30, 2009.
- The Ontario Computer Animation and Special Effects tax credit (OCASE) will be reduced from 20% to 18% for expenditures incurred after April 23, 2015. The budget proposes to require that in order to claim the OCASE, productions started after April 23, 2015 must also receive the Ontario Film and Television tax credit (OFTTC) or the OPSTC.
- The federal government amended the Canadian Film or Video Production tax credit to treat government equity investments in a production in the same manner as other forms of assistance. Typically, the OFTTC would parallel federal amendments; however, the

Ontario government will file a regulation, effective after December 31, 2008, to maintain Ontario's established administrative position to not treat government equity investments as assistance for purposes of the OFTTC.

- The Ontario Sound Recording tax credit (OSRTC) is proposed to be eliminated for expenditures incurred after April 23, 2015. However, if the eligible sound recording started before April 23, 2015, expenditures incurred after April 23, 2015 but before May 1, 2016 will qualify for an ORSTC as long as an Ontario Music Fund grant is not received for those expenditures.
- The Ontario government will parallel the federal government's change to the taxation of trusts and estates by applying the highest personal income tax rate to all trusts, with some exceptions, beginning in 2016. Graduated Ontario rates and the Ontario surtax will continue to apply to Graduated Rate Estates and Qualified Disability Trusts. Furthermore, for top-rate trusts, the Ontario tax credit rate for charitable donations over \$200 would be raised to 17.41%.
- The budget proposes to harmonize with the federal government and other provinces by eliminating the Ontario Resource tax credit (ORTC) and the additional tax on Crown Royalties and providing a deduction for royalties and mining taxes paid effective April 23, 2015. In the first five years beginning after April 23, 2015, accrued but unused ORTC amounts are eligible for carry-forward to offset Ontario income tax payable.

Measures concerning individuals

- There are no new tax measures concerning individuals.

Other tax measures

- To facilitate the privatization of the electricity distribution sector, relief on taxes on transfers of electricity assets for all municipal electricity utilities (MEUs) beginning January 1, 2016 and ending December 31, 2018 will include reducing the transfer tax rate from 33% to 22%, exempting MEUs with less than 30,000 customers from the transfer tax, and exempting capital gains arising under the payment in lieu of taxes deemed disposition rules.
- Technical amendments will be proposed to various statutes, including: Financial Administration Act, Income Tax Act, Taxation Act, 2007, Land Transfer Tax Act, Fuel Tax Act, Gasoline Tax Act and Tobacco Tax Act.

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

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