

Canadian tax alert

2016-2017 Ontario budget highlights



Minister of Finance Charles Sousa presented the 2016-2017 Ontario budget in the Legislative Assembly this afternoon. The budget contains initiatives to focus on talent and skills, increase infrastructure investments and to introduce a cap-and-trade program to foster a low-carbon economy.

Fiscal/economic outlook

- The 2015-2016 deficit is estimated to be \$5.7 billion, \$2.8 billion lower than originally forecasted.
- The deficit is projected to be \$4.3 billion in 2016-2017 but a balanced budget is projected in both 2017-2018 and 2018-2019.
- Employment is expected to increase by 1.1% in 2016 and by an average of 1.2% per year for 2017-2019, with the unemployment rate declining to 6.1% in 2019.
- Real GDP growth is predicted to rise from 2.2% in 2016 to 2.4% in 2017 but decline to 2.0% by 2019.

Measures concerning business

- The budget proposes to reduce the rate of the Ontario Research and Development Tax Credit from 4.5% to 3.5% and the rate of the Ontario Innovation Tax Credit from 10% to

8% for eligible research and development (R&D) expenditures incurred in taxation years that end on or after June 1, 2016. These rate reductions will be prorated for taxation years straddling June 1, 2016.

- New targeted investment in R&D is proposed including:
 - \$35 million over five years to establish the Advanced Manufacturing Consortium;
 - \$20 million over three years to connect colleges with Ontario companies on applied research projects; and
 - \$50 million over five years to invest in the Perimeter Institute.

Measures concerning individuals

- Beginning in September 2017, the budget proposes to eliminate the Ontario tuition and education tax credits. Ontario students will be able to claim the Tuition Tax Credit for eligible tuition fees paid for studies up to and including September 4, 2017. The Education Tax Credit will be available for months of study before September 2017.
- The Children's Activity Tax Credit and the Healthy Homes Renovation Tax Credit are proposed to be discontinued as of January 1, 2017.
- With the reductions in the federal small business corporate income tax rate over four years announced in the 2015 federal budget, Ontario will parallel the corresponding changes to the gross-up rate for non-eligible dividends. Thus, Ontario's non-eligible dividend tax credit rate will be reduced from 4.5% to 4.2863% for 2016. For 2017 and subsequent years, the Ontario government will review its non-eligible dividend tax rate.
- The Ontario government will also parallel the federal government's application of its top marginal personal income tax rate to all income that is split with certain related children. This split income will be taxed at Ontario's top marginal personal income tax rate of 20.53%, and no surtax will be payable on that income.
- The Ontario government proposes to examine ways to simplify the personal income tax system.

Other measures

- Ontario's tobacco tax will increase from 13.975 cents to 15.475 cents per cigarette and per gram of tobacco products other than cigars, effective 12 a.m. February 26, 2016. Beginning in 2017, the government proposes to increase tobacco rates based on inflation over each of the next five years.
- Technical amendments will be proposed to various statutes, including: Financial Administration Act, Income Tax Act, Taxation Act, 2007, Employer Health Tax Act, Estate Administration Tax Act, Land Transfer Tax Act, Provincial Land Tax Act, 2006, Retail Sales Tax Act and Tobacco Tax Act.

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

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