Deloitte.

Canada
Tax

Contacts:

Canadian managing partner, Tax
Heather Evans
416-601-6472

National tax policy leader
Albert Baker
416-643-8753

Atlantic
Brian Brophy
709-758-5234

Quebec
Judith Bellehumeur
514-393-6512

Ontario
Mark Noonan
613-751-6688

Toronto
Tony Ancimer
416-601-5945

Prairies
Larry Bookman
306-343-4409

Alberta
Trevor Bell
403-267-1880

British Columbia
Etienne Bruson
604-640-3175

Related links

Deloitte Tax Services

Update your subscription

Canadian tax alert

Ontario corporate tax rate frozen at 11.5%

June 21, 2012

Ontario's budget bill, Bill 55, passed third reading and received Royal Assent in the Ontario Legislative Assembly on June 20**,** 2012. Subsequently, Bill 114, which contained the anticipated corporate income tax rate freeze, was introduced, read three times, passed and received Royal Assent as S.O. 2012 C.9. Consequently, the corporate income tax rate remains at 11.5%.

Tax accounting implications

Since Bill 114 to implement the corporate tax rate freeze is now law, clients with permanent establishments in Ontario will be subject to a tax rate increase for fiscal 2012 on their current earnings and a tax rate increase to their deferred taxes. Consequently, for IFRS and US GAAP purposes, it will be necessary to recognize the tax accounting consequences in Q2 for calendar year companies.

Interim period implications

Interim period accounting for IFRS and US GAAP requires the estimation of an average annual effective tax rate (AETR) to determine tax expense, which is then adjusted for discrete items to arrive at the total tax expense for the interim period. When a tax rate change is substantively enacted (IFRS) and enacted (US GAAP) during an interim period and it changes the applicable tax rate to current earnings, the AETR should be re-estimated to take into account the change in the tax rate. For deferred taxes, the change in the tax rate requires the deferred taxes to be re-determined. For IFRS purposes, this change in deferred taxes may be included in the AETR or recorded as a discrete item in accordance with the company's policy.

US GAAP requires the change in a tax law to be reflected in the computation of the global AETR in the first interim period that includes the enactment date of the new legislation. Thus, a new computation of the global AETR is required in order to determine the impact of the new tax rate for the current interim period. However, US GAAP also mandates that the effect of a change in tax laws or rates on a deferred tax liability or asset not be apportioned among interim periods through an adjustment of the global AETR. For US GAAP purposes, the full impact of the change in tax laws or rates on the deferred tax balance should be fully recognized as a discrete item in the interim period the change in tax laws became enacted.

Arthur Driedger, Toronto

30 Wellington Street West
P.O. Box 400, Stn Commerce Court
Toronto ON M5L 1B1 Canada