Canadian tax alert

2018-2019 Ontario budget highlights

March 28, 2018

The Minister of Finance, Charles Sousa, presented the 2018-2019 Ontario budget in the Legislative Assembly this afternoon. This year's budget is projected to be a deficit and is focused on investments in health care, child care, home care and mental health. The following is a summary of the tax highlights contained in the budget. Note that there were no changes to the business income tax rates.

Fiscal/economic outlook

- The 2017-2018 surplus is estimated to be $0.6 billion.
- A deficit of $6.7 billion is projected for 2018-2019 and deficits are forecasted for the following five fiscal years.
- Employment growth is expected to increase by 1.7% in 2018 and by an average of 0.9% per year for 2019-2021, with the unemployment rate declining to 5.4% in 2021.
- Real GDP growth is predicted to decline from 2.2% in 2018 to 1.7% by 2021.

Personal tax measures

- The budget proposes to eliminate Ontario's surtax and adjust the personal income tax brackets and rates, effective for the 2018 tax year, as follows:

Proposed tax brackets	Proposed tax rates (no surtax)
$0 to $42,960	5.05%
$42,960 to $71,500	9.15%
$71,500 to $82,000	11.00%
$82,000 to $92,000	13.50%
$92,000 to $150,000	17.50%
$150,000 to $220,000	19.00%
$220,000 and over	20.53%

- The Ontario government proposes to increase the rate of the non-refundable Ontario charitable donations tax credit (OCDTC) to 17.5% for eligible donations exceeding $200, effective as of the 2018 tax year. For the first $200 of donations, the OCDTC rate of 5.05% will continue to apply.

Business tax measures

- The budget proposes to increase the Ontario research and development tax credit (ORDTC) rate from 3.5% to 5.5% on expenditures over $1 million for companies that already qualify for the ORDTC, effective for eligible research and development expenditures (R&D) incurred on or after March 28, 2018.
- For eligible R&D expenditures incurred on or after March 28, 2018, the budget also proposes to enhance the Ontario innovation tax credit (OITC). If a company qualifies for the OITC and has a ratio of R&D expenditures to gross revenues that is:
    - 10% or less, the company would continue to be eligible for the OITC at the 8% rate;
    - Between 10% and 20%, the company would be eligible for an enhanced OITC rate that would increase from 8% to 12% on a straight-line basis as the company's ratio of R&D expenditures to gross revenue increases from 10% to 20%; and
    - 20% and above, the company would be eligible for the OITC at a 12% rate.
- The Ontario government is exploring the effectiveness and feasibility of tax incentives to commercialize intellectual property in Ontario.
- The budget proposes to follow the eligibility criteria for the small business deduction (SBD) for the employee health tax exemption so that the exemption would only be available to individuals, charities, not-for-profit organizations, private trusts and partnerships, and Canadian-controlled private corporations. In addition, the government will incorporate the federal anti-avoidance rules related to the multiplication of the SBD into the Employer Health Tax Act. These proposed changes, if passed, would be effective January 1, 2019.

- An amendment is proposed to the Taxation Act, 2007 to extend the eligibility for the Ontario interactive digital media tax credit to film and television websites purchased or licensed by a broadcaster and embedded in the broadcaster's website.

Paralleling federal measures

- The Ontario government proposes to automatically parallel the federal amendments, once approved, to address income sprinkling by applying its top personal income tax rate of 20.53% on split income received by adult family members who are not active in the business, with certain exceptions, beginning with the 2018 taxation year.
- The budget proposes to parallel the federal measure on passive investment income proposed in the 2018 federal budget.
- The budget proposes to automatically parallel the proposed federal amendments, once approved, to the "synthetic equity arrangement" and "securities lending arrangement" rules, as well as a specific stop-loss rule applicable to share repurchase transactions.

Other measures

- In preparation for the legalization of cannabis, Ontario intends to enter into an agreement with the federal government under which Ontario would receive 75% of the federal excise duty collected on cannabis intended for sale in the province.
- Consistent with the treatment of certain goods, such as tobacco and alcoholic beverages, Ontario intends to apply the full 13% harmonized sales tax to apply to off-reserve purchases of recreational cannabis once legalized.
- The budget proposes to allow land transfer tax arising from certain unregistered dispositions of a beneficial interest in land through certain types of partnerships and trusts to be payable 30 days after the end of the calendar quarter in which the disposition occurred, rather than within 30 days of the disposition.
- As announced in the 2017 budget, Ontario's tobacco tax will increase by two cents from 16.475 cents to 18.475 cents per cigarette and per gram of tobacco products other than cigars in 2018. This increase is effective 12:01 a.m., March 29, 2018.

For further details, we refer you to the Ministry of Finance website.

Your dedicated team:

National

Fatima Laher
Tax Clients and Industry Leader
Tel: 416-601-6570

Albert Baker
National Tax Policy Leader
Tel: 416-643-8753

Eastern Region

Tony Maddalena
Regional Tax Leader
Tel: 905-315-5734

Toronto

Brian Brophy
Regional Tax Leader
Tel: 416-601-5844

Deloitte LLP
Bay Adelaide Centre, East Tower
8 Adelaide Street West, Suite 200
Toronto ON M5H 0A9
Canada