



To: Our Valued Clients and Friends of the firm:

Commentary: Ontario Budget 2011

Today, March 29, 2011, Ontario Finance Minister Dwight Duncan brought down the 2011 budget. The 2011 deficit is now forecast to be \$16.7 billion, \$3 billion lower than initially predicted last year. A return to a balanced budget is expected in 2018. With Ontario's economy in the midst of a recovery, spending is focused on education and health initiatives.

While there is a variety of minor changes, the significant news is that planned corporate income tax rate reductions are continuing as originally scheduled.

The budget highlights are briefly summarized below.

Corporate Income Tax

The 2011 budget keeps the cuts to corporate income tax rates proposed in previous budgets. The rates are as follows:

Ontario's Corporate Income Tax Rates			
Date	Rates (%)		
	General	Manufacturing & Processing	Small Business
July 1, 2010	12.0	10.0	4.5
July 1, 2011	11.5	10.0	4.5
July 1, 2012	11.0	10.0	4.5
July 1, 2013	10.0	10.0	4.5

Other Corporate Tax Measures

R & D

Ontario will be participating in the current federal review of programs aiming to improve the effectiveness of R&D activities, the support of joint ventures between the private and education sectors and the leveling of the playing field for small businesses.

Corporate Groups

The federal government has indicated it is studying various alternatives under corporate group tax reporting and Ontario has taken the position that any changes should improve the efficiency and competitiveness of the corporate tax system and the province's revenue base must be protected.

Ontario Book Publishing Tax Credit

Ontario book publishing corporations can claim a 30% refundable tax credit on qualifying marketing expenses for certain books written by Canadian authors. The definition of qualifying marketing expenses is expanded to include expenses incurred one year before to one year after the publication date. This measure is effective for post March 29, 2011 expenses.

Mining Tax Return

Where a mine operator reports its income on a federal income tax return in a functional currency, it can elect to file its Ontario mining tax returns in the same functional currency.

Retail Sales Tax Clearance Certificate for Bulk Sales

Retail Sales Tax Act (RSTA) clearance certificates are required for sales under The Bulk Sales Act. RSTA clearance certificates can now be withheld until all outstanding debts under various Ontario tax acts are paid.

Marketing Initiatives of the Beer and Wine Industry

The budget announced an exemption from the Beer and Wines Taxes under the Alcohol and Gaming Regulation and Public Protection Act, 1996 providing an annual exemption up to 10,000 litres of qualifying wine and beer products distributed without charge.

Tax Administration Measures

The administration of estates (probate fees) currently handled by the Ministry of the Attorney General is being shifted to the Ministry of Revenue.

Amendments are being put forward to various provincial tax acts that allow the recovery of more third party costs incurred in the course of collection activities.

The refundable Ontario sales tax credit, Ontario Energy and Property Tax Credit and the Northern Ontario Energy Credit are being combined into a new monthly Ontario Trillium Benefit, effective July 2012.

The Ontario Child Care Supplement for Working Families and the Ontario Child Benefit are being combined into one payment and will be recognized on a per child basis allowing for the receipt of the child care supplement for each eligible child under age seven.

Comments on Pension Reform

The Ontario government stated that it supports the gradual implementation of an enhanced Canada Pension Plan.

The province stated its position that the federally proposed "Pooled Registered Pension Plans", a new pension vehicle, be affordable to the self-employed and to small businesses and that plan member interests be protected.

The budget also announced Ontario's intention to update provincial legislation to mirror changes made federally to pension investment guidelines.

There was also a wide variety of changes to address a number of issues where plans are being wound up or the solvency of pension plans is in question, relieving provisions for members of Nortel and AbitibiBowater pension plans, and the implementation of previously announced changes. Most notably, the province will be implementing the provisions for pension division on marriage breakdown set out in the Family Statute Law Amendment, 2009 and proposed regulations were posted for public consultation on March 3, 2011.

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