



Business and tax tips for successful financial planning

March 25, 2008

Tax Alert Ontario budget 2008

Budget-making is always a mix of the political and the practical. While the main objective is always to help re-election, a strong economy usually helps in that effort. However, this Ontario budget seems to be almost exclusively political, with very little attention to the practical.

In the words of one budget-lockup denizen, it's as though the "Fighting Irish" of Notre-Dame decided to play against themselves. Federal finance minister Jim Flaherty said the road to redemption is paved with tax cuts. Premier Dalton McGuinty thinks that's just mean-spirited. Since it's McGuinty's turn to play, he brought down a budget that was essentially all-spending, no-tax-cuts.

In fact, in the past fiscal year, Ontario had over \$5 billion of unanticipated extra revenue – and they spent it all. Yes, they had a \$600M surplus, when they were forecasting a \$400M deficit, but on a \$96B budget, both numbers are close enough to zero that the difference doesn't matter.

The government is predicting the economy will grow over the next 3 years by 1.1%, 2.1% and 2.7%, but government revenues will rise by about 4% each year – and they will spend it all.

Nurses are the big winners – we'll be hiring more. Low- and mid-income pensioners get property tax rebates (pensioners vote more than anyone). Some decent money for infrastructure (roads and bridges). People retraining will get significant subsidies. The rest of us get... zilch.

No meaningful reductions in corporate tax, to compete with other provinces. No reduction in personal tax rates. No harmonization of the retail sales tax with the federal GST (because that was an idea floated by Flaherty).

Lots of talk about non- and only tangentially-financial matters: A push for harmonizing securities issuance across the country (pure posturing without Quebec's buy-in). Money to help people and businesses negotiate the tangled web of services and regulation ("211" phone service and "Investment Ontario Inc."). Banning transfats from schools. Subsidies for northern Ontario, including for broadband access. A new statutory holiday. Prostate testing and HPV vaccines.

In summary, a small pat of butter that couldn't cover a very large slice of bread, even spread as thinly as possible.

Corporate Tax Measures

- Capital Tax is eliminated retroactive to January 1, 2007 for manufacturing and resource firms.
- The 2007 federal budget introduced a temporary, straight-line Capital Cost Allowance (CCA) rate of 50% for manufacturing and processing machinery and equipment acquired after March 19, 2007 and before 2009. The 2008 federal budget extended the straight-line rate for 2009 and extended the 50% rate on a declining balance basis

for 2010 and 2011. The Ontario budget proposes to extend this tax incentive in line with the federal rates and effective dates.

- The Ontario budget also proposes to mimic other CCA changes made at the federal level including expanding eligibility for Class 43.2 to include a broader range of clean energy generation assets, increasing the CCA rate for carbon dioxide pipelines and increasing the CCA rate for railway locomotives.

(Continued on page 2)

Tax Alert: Ontario Budget 2008

(Continued from page 1)

- The Ontario Innovation Tax Credit (OITC) is a refundable tax credit available to small and medium sized corporations that carry on scientific research and experimental development (SR&ED) in Ontario. The OITC expenditure limit is increased from \$2 million to \$3 million and the upper limit of the taxable income phase-out range that was between \$400,000 and \$600,000 has been increased to \$700,000

Paralleling Federal Tax Measures

The Ontario budget proposed several measures paralleling last month's federal budget:

- Tax-Free Savings Account (TFSA) - tax free income earned within and withdrawals from TFSA. Contributions are not tax deductible and are limited to \$5,000 annually.
- Registered Education Savings Plan program - extending the maximum contribution period, maximum lifespan and contribution age limit by 10 years.
- An expansion of the list of expenses eligible for the Medical Expense Tax Credit.
- Capital gains exemption for donations of publicly traded securities to registered charities.
- Reduction of gross-up factor applicable to eligible dividends beginning in 2010.

Corporate Tax Harmonization

Effective April 3, 2008, those employees of the Ontario Ministry of Revenue involved with the administration of the Ontario Corporations tax will be transferred to the CRA. Corporate taxation years ending after December 31, 2008 will file a single integrated tax return.

The CRA has started collecting Ontario corporate tax installments for taxation years ending in 2009.

Health spending to rise

Health-care, which accounts for 46 cents of every dollar the province spends on programs, is expected to increase by \$2.3 billion to \$40.4 billion in the next fiscal year, reaching \$44.7 billion in three years.

More than \$500 million of that will be used to hire 9,000 more nurses by 2012 - 2,000 of whom will be placed in nursing homes.

211 Ontario

Ontario will spend \$13 million over 4 years to make 211 Ontario a province-wide system beginning in the 2008-2009 fiscal year. 211 Ontario is an integrated telephone and internet-based system providing callers/users with one-stop information about, and referrals to, local community social, health and related government programs and services.

Investment Ontario Inc.

As part of its five-point economic plan the Ontario government will establish Investment Ontario Inc., an independent agency that will provide business with fast and effective access to economic development services and assistance. This will help the government become more strategic in targeting markets and sectors on which to focus its investment and trade activities, improving Ontario's international recognition.

Investing in Ontario Act

Currently, by law, all unanticipated surpluses must be used to pay down the province's debt. The government has proposed a law that would allow it to spend a portion on such things as municipal infrastructure, transit and housing.

This is certainly in line with the high-taxing, high-spending approach that has come to characterize this government. At least they were honest about it.



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