

2017 ONTARIO BUDGET

INTRODUCTION

The Ontario Budget was released today and overall there were no significant or unexpected changes. In the weeks leading up to the budget, the most anticipated measures were in regards to the housing market. Ontario announced its housing plans, including introduction of a new Non-Resident Speculation Tax, in advance of the budget which we previously summarized in our April edition of The Optimizer.

In this budget commentary, we provide an overview of the proposed tax changes and how they will impact Ontario businesses and individuals.

PERSONAL

Personal Income Tax Rates

No changes were proposed in the 2017 Ontario budget. As a result, the combined federal and Ontario marginal tax rates will be as follows for 2017.

Combined federal and Ontario personal income tax rates for 2017				
Taxable Income	Marginal Rate			
	Income	Capital Gains	Eligible Dividends	Other Dividends
first \$42,201	20.05%	10.03%	0%	6.13%
\$42,202 up to \$45,916	24.15%	12.08%	0%	10.93%
\$45,917 up to \$74,313	29.65%	14.83%	6.39%	17.37%
\$74,314 to \$84,404	31.48%	15.74%	8.92%	19.51%
\$84,405 to \$87,559	33.89%	16.95%	12.24%	22.33%
\$87,560 to \$91,831	37.91%	18.95%	17.79%	27.03%
\$91,832 to \$142,353	43.41%	21.70%	25.38%	33.46%
\$142,354 to \$150,000	46.41%	23.20%	29.52%	36.97%
\$150,001 to \$202,800	47.97%	23.98%	31.67%	38.80%
\$202,801 to \$220,000	51.97%	25.98%	37.19%	43.48%
\$220,001 and up	53.53%	26.76%	39.34%	45.30%

PERSONAL, cont'd

Personal Income Tax Credits

Multijurisdictional Filers — Surtax and Ontario Tax Reduction

The budget proposes to adjust the calculation of the provincial surtax and Ontario Tax Reduction for Ontario residents who pay tax to other provinces, as well as non-residents of Ontario who pay tax in Ontario. The change to the calculation of the surtax would be based on the total amount of Ontario tax on total taxable income. The total amount of tax payable, including the surtax, would then be prorated based on the percentage of income allocated to Ontario. The OTR amounts would also be prorated based on the percentage of income allocated to the province.

Caregiver Tax Credits

The budget proposes to combine the provincial caregiver and infirm dependant tax credits into a new Ontario Caregiver Tax Credit. This consolidation mirrors the consolidation of similar credits at the federal level.

This new non-refundable 5.05% credit is available in respect of relatives who are infirm dependants, including adult children of the claimant or of the claimant's spouse or common-law partner. Dependents do not need to live with the caregiver claiming the credit, but the credit will no longer be available in situations where non-infirm senior parents or grandparents reside with their adult children or grandchildren. For 2017, the maximum amount of taxable income for which this credit is available would be \$4,794. The credit would begin to phase out where the dependant's net income is more than \$16,401.

Ontario Seniors' Public Transit Credit

The budget introduces the Ontario Seniors' Public Transit Tax Credit for all Ontarians aged 65 or older. This new credit covers eligible public transit costs as of July 1, 2017. No other specific information is available.

This measure comes just after the federal government announcing in its budget that the federal transit credit for all Canadians will be repealed effective July 1, 2017.

Medical Tax Expense Credit for Fertility-related Expenses

Similar to changes announced at the federal level, the budget allows individuals who require medical intervention to conceive a child to claim certain expenses under the Medical Tax Expense Credit.

CORPORATE

Corporate Income Tax Rates

The budget does not make any changes to the Ontario corporate tax rates. The combined federal and provincial tax rates will remain 15% on the first \$500,000 of active business income while the general corporate rate will remain 26.5%.

CORPORATE, cont'd

Review of Tax Planning Strategies Involving Private Corporations

The Ontario government intends to review tax planning strategies involving private corporations that it says inappropriately reduce personal taxes of high income earners. The federal budget made similar statements, specifically towards income splitting (referred to as “sprinkling”), holding passive investments through a private corporation, and converting regular business income into capital gains.

Employer Health Tax Exemption

The 2016 federal budget made changes to the multiplication of the small business deduction through complex corporate and partnership structures. These types of structures could still potentially multiply the Employer Health Tax exemption, and the budget proposes to make changes that will eliminate any unintended multiplication of the exemption.

OTHER

Various other measures proposed in the budget include:

- Gradually raise the tobacco tax by \$10 on cartons and 4 cents per cigarette or gram of tobacco over the next three years
- Allowing municipalities to reduce property tax rates for eligible small-scale value-added and commercial activities on farms
- Adjust the rules on land transfer tax including preventing qualifying purchasers from claiming their spouse’s interest for the first-time homebuyers refund if the spouse is not a Canadian citizen or permanent resident of Canada
- Subject beer made by microbrewers to the beer manufacturer’s tax

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