2018 ONTARIO BUDGET

The Ontario government presented its last budget before the June provincial election on March 28, 2018. The government is promising to pour billions of dollars into health care, child care, dental care and other programs while continuing to incur billions in government deficits and is not projecting a balanced budget until 2024 - 2025. There is assistance being provided to seniors in the form of the elimination of Ontario Drug Benefit Plan co-op payments and up to $750 towards the cost of maintaining a home by seniors who are 75 years of age or older. While simplifying the tax rates and income tax brackets, at the same time, the government is also increasing the personal taxes of Ontarians by approximately $275 million a year by increasing the effective tax rates on people making more than $92,000 a year.

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

Personal Income Tax Rates

Ontario's personal income tax includes a surtax, which is a tax on tax. This allows the provincial rates to appear lower than they actually are. For example, the top Ontario rate in 2017 was 13.16%, but after accounting for the surtax the rate is effectively 20.53% (when combined with the top federal rate, this becomes 53.53%).

The budget proposes to eliminate the surtax and factor the impact of the surtax into the provincial tax rates (i.e. the top Ontario rate will increase from 13.16% to 20.53%, which is the same effective rate we have today due to the surtax). The top combined federal and Ontario tax rate will remain at 53.53% for 2018. The top Ontario tax bracket will also remain at $220,000 and not be indexed for inflation.

While this improves transparency in the tax rates, on a mechanical level the surtax applied after the application of most provincial tax credits. This means that provincial tax credits would also effectively reduce the amount of surtax payable. Under these proposals, individuals earning over $92,000 a year will pay a higher effective tax rate since their personal tax credits will be less effective than they are now. The impact will be a few hundred dollars of extra tax at best, but could be higher for individuals who are entitled to other non-refundable provincial credits. The table below summarizes the changes to the Ontario tax rates.

Current and Proposed 2018 Ontario PIT Rates and Brackets			
Current (Including Impact of Surtax)		**Proposed (No Surtax)**	
0 - $42,960	5.05% (no surtax)	0 - $42,960	5.05%
$42,960 - $85,923	9.15% (no surtax) 10.98% (including 20% surtax) 14.27% (including 56% surtax)	$42,960 - $71,500 $71,500 - $82,000	9.15% 11.00%
$85,923 - $150,000	17.41% (including 56% surtax)	$82,000 - $92,000 $92,000 - $150,000	13.50% 17.50%
$150,000 - $220,000	18.97% (including 56% surtax)	$150,000 - $220,000	19.00%
> $220,000	20.53% (including 56% surtax)	> $220,000	20.53%

Personal Income Tax Credits

The budget proposes to increase the Ontario tax credit for charitable donations in excess of $200 from 11.16% to 17.5%. With the elimination of the surtax this is really just a gain of 0.09%, as the current 11.16% rate effectively reduces provincial tax by 17.41% after factoring in its reduction to the surtax.

The budget also proposes to introduce a 15% refundable tax credit for seniors for their public transit costs. The federal transit credit was eliminated in July 2017.

Corporate Income Tax Rates

The budget proposes to reduce the provincial tax rate on the first $500,000 of active business income from 4.5% to 3.5% starting in 2018. Combined with the federal reduction to this same type of income, the tax rate will be 12.5%. The general corporate income rate on other types of income will remain at 11.5% provincially (26.5% when combined with the federal rate). It is expected that the provincial personal tax rate on non-eligible dividends will also increase as result of this change, but the budget was silent on the matter.

Canadian controlled private corporations will continue to pay 50.17% tax on investment income (inclusive of a 30.67% refundable tax which may be recovered when dividends are paid).

Corporate Tax Credits

The Ontario Research and Development Tax Credit

The budget proposed to increase the Ontario Research and Development Tax Credit (ORDTC). Companies that qualify for the ORDTC would be eligible for an enhanced rate of 5.5 per cent on expenditures over $1 million (this threshold would be prorated for short taxation years) in a taxation year, effective for eligible R&D expenditures incurred on or after March 28, 2018.

This enhanced tax credit rate would not be available to businesses where eligible R&D expenditures in the current taxation year are less than 90 per cent of eligible R&D expenditures in the prior taxation year. When a corporation is amalgamated with, or wound up into, another corporation, each predecessor corporation's eligible R&D expenditures would be considered transferred to the successor.

The enhanced tax credit rate would be prorated for taxation years straddling March 28, 2018.

Ontario Innovation Tax Credit

The Ontario Innovation Tax Credit (OITC) is an eight per cent refundable tax credit for small to medium-sized companies on eligible R&D expenditures. The government proposes to enhance the OITC to encourage smaller companies to make investments in R&D that will help them grow.

The rates are as follows:

Ontario Innovation Tax Credit (cont'd)

	R&D Expenditures to Gross Revenues	OITC Rate
1	< 10%	8%
2	10% - 20%	8% - 12% Straight-line
3	>= 20%	12%

The rate enhancement would be prorated for taxation years straddling March 28, 2018.

Targeting the Employer Health Tax Exemption to Small Employers

The budget Ontario proposes to follow the eligibility criteria for the small business deduction and narrow down the EHT exemption. As a result, the exemption would only be available to individuals, charities, not-for-profit organizations, private trusts and partnerships, and Canadian-controlled private corporations.

This change will become effective January 1, 2019.

Paralleling Federal Measures

Ontario will parallel the federal changes to income splitting effective for 2018 as well as the federal budget's proposed changes to passive income earned inside of a Canadian-controlled private corporation (more information can be found in our Federal Budget Edition of the Optimizer on our website).

Easing Land Transfer Tax Reporting Requirements for Certain Dispositions

Land transfer tax arising from certain unregistered dispositions of a beneficial interest in land through certain types of partnerships and trusts is generally payable 30 days after the date of sale. The budget proposes to change this to 30 days after the end of the calendar quarter in which the disposition occurred.

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