

**Ontario
Budget
Commentary**

March 27, 2003

INTRODUCTION

Ontario Finance Minister Janet Ecker introduced her second Budget on March 27, 2003. For the first time, the Budget was presented outside the Legislature. The Ontario government introduced its fifth consecutive balanced budget, one that focused on growth and prosperity, while at the same time making significant commitments to funding core social programs and job creation. Increased spending on education, health care, environmental concerns and infrastructure projects figured prominently in the Budget.

PERSONAL TAX MEASURES

Ontario Tax Reduction Program

The basic amount of the Ontario Tax Reduction will be increased from \$181 to \$197 plus an increase for inflation, effective January 1, 2004. This provides additional tax savings for lower-income individuals.

Surtax

The personal income tax surtax is payable when Ontario income tax exceeds a certain threshold. For 2004, this threshold is \$4,727 plus an increase for inflation. The Budget proposes to increase this threshold to \$5,240, effective January 1, 2005. This increase in the surtax threshold effectively exempts all individuals with taxable income of less than \$75,000 from the surtax.

Improved Tax Support for People with Disabilities and for Family Caregivers

The Budget proposes the following increased tax support, effective January 1, 2003, for people with disabilities and for family caregivers.

The Budget proposes to increase the underlying amount for the disability credit from \$6,316 to \$6,637. In addition, the underlying amounts for the caregiver credit, the infirm dependant credit and the disability credit supplement for children with severe disabilities are being increased from \$3,684 to \$6,637.

The caregiver credit and the infirm dependant credit are being expanded to include spouses or common-law partners who are dependent by reason of a mental or physical infirmity. In addition, more support is being given to caregivers living apart from dependant relatives.

The Budget proposes to increase to \$13,050 the income threshold at which the caregiver and infirm dependant credits are impacted. In addition, the income level at which these credits are eliminated has been increased to \$19,687. Under the current legislation, the caregiver credit is eliminated when the dependant's income reaches \$16,290 and the infirm dependant credit is reduced to zero for dependants with incomes of \$8,922 or more.

Equity in Education Tax Credit

The 2001 Budget introduced a tax credit for parents who send their children to independent schools. Although the 2002

Budget proposed some delay in the implementation schedule, this Budget proposes to restore the implementation schedule originally proposed in the 2001 Budget. Consequently, the tax credit rates will be as follows: 20% for 2003, 30% for 2004, 40% for 2005 and 50% for 2006 and subsequent taxation years.

Ontario Child Care Supplement for Working Families

The \$20,000 net income threshold at which this supplement begins to be reduced will be raised to \$20,750 commencing with the July 2003 payment.

Property Tax Relief For Seniors

Effective July 1, 2003 seniors who rent or own their home are eligible for a credit to reimburse them for the residential education property taxes that they pay. Seniors will be required to file an application for the reimbursement. The refund will be paid in 2004. This reimbursement is expected to save seniors an average of \$475 annually.

CORPORATE TAX MEASURES

Income Tax

In prior Budgets, the government announced its intention to reduce the general corporate income tax rate to 8% by 2005. Last year's Budget delayed this by one year and this Budget has not changed corporate income tax rates or thresholds from last year.

The existing and future corporate rates for particular corporations, and for particular income sources, remain unchanged. Rates for small business

corporations, and corporations that earn manufacturing and processing (M&P), mining, logging, farming or fishing income, will all decline as outlined in previous Budgets as follows:

	Small Business Tax Rate*	General Corporate Tax Rate	Rate for M&P, Mining Logging, etc.
Current	5.5 %	12.5 %	11.0 %
Jan 1, 2004	5.0 %	11.0 %	10.0 %
Jan 1, 2005	4.0 %	9.5 %	9.0 %
Jan 1, 2006	4.0 %	8.0 %	8.0 %

* The threshold is currently \$320,000, and will increase to \$360,000 on January 1, 2004 and to \$400,000 on January 1, 2005, as previously announced.

Capital Tax

This Budget follows the federal government's lead in eliminating capital tax by 2008. Effective January 1, 2004, the Ontario capital tax rate for all corporations will be reduced by 10% to \$2,700 on \$1 million of taxable capital.

Other Measures

- The Budget proposes to introduce additional incentives for corporations that generate their own power. An additional 100% deduction is proposed for the cost of qualifying assets used to generate electricity from alternative or renewable energy sources. Qualifying assets are electrical generating facilities where construction commences after November 25, 2002 and is completed before January 1, 2008. This is in addition to the accelerated write-off of such assets already allowed as capital cost allowance. Corporations

eligible for this deduction will be ineligible for the ten-year tax holiday for new electricity generation.

- The Budget proposes to introduce a new Apprenticeship Tax Credit. Corporations and unincorporated businesses in Ontario will be eligible for a 10% refundable tax credit for eligible expenditures after March 27, 2003 related to hiring apprentices in a qualifying skilled trade. The credit would be 15% for businesses with total payroll costs not exceeding \$400,000. The maximum available credit is \$250 per month, per apprentice, to a maximum of \$6,000 over a 24-month period.
- The Budget proposes to enhance the Ontario Film and Television Tax Credit (OFTTC). Currently, the OFTTC is a 20% refundable tax credit granted to Ontario-based, Canadian-controlled production companies producing eligible productions. The base for the OFTTC is Ontario labour expenditures, less the amount of equity investments by government agencies. Effective for productions commencing principal photography after March 27, 2003, the tax credit base will not be reduced by government investment.
- The existing Ontario Business-Research Institute Tax Credit is a 20% refundable credit on qualifying research and development (R&D) expenditures incurred by an Eligible Research Institute (ERI) under a research contract funded by the corporation claiming the credit.

The credit is currently not available where the corporation and the ERI are connected. The legislation will be clarified to ensure that expenditures only for the period during which the two entities are connected are ineligible for the credit. The existing requirement that the corporation and the ERI not be connected at any time in the 24 months preceding the R&D contract is eliminated. Both these changes are retroactive to expenditures incurred after May 6, 1997, the date the credit was introduced.

Subcontracting of R&D by ERIs will now not eliminate credit eligibility, provided that the subcontracted work is under the control of the ERI and represents 10% or less of the total contract expenditures. This measure is effective for subcontracts entered into after March 27, 2003.

- The existing Ontario Book Publishing Tax Credit is a 30% refundable credit available on expenditures for literary works by first-time Canadian authors. This credit is amended, effective January 1, 2002, to ensure that, after a corporate reorganization, credit bases of predecessor corporations are preserved in successor corporations.

Enforcement Measures

- The Ministry of Finance will be taking aggressive action to ensure that all corporations file tax returns or Exempt from Filing Declarations. By April 30, 2003, notices will be issued to all corporations in default of filing, requiring immediate filing of returns. Failure to do so may

result in the corporation's dissolution and prosecution of the directors of the corporation for failure to file. Additionally, late filing penalties of up to 17% of the tax owing, increasing to 50% for repeat late filers, will be imposed.

- To enforce collection of taxes owing, amendments to the Ontario Business Corporations Act will be proposed to allow for the dissolution of a corporation and the withholding of clearance certificates for revivals, transfer of assets or dissolutions where tax debts are owed under any of the Employer Health Tax Act, Retail Sales Tax Act, Land Transfer Tax Act, Fuel Tax Act, Gasoline Tax Act, or Tobacco Tax Act.

PROPERTY AND LAND TRANSFER TAXES

Property Taxes

Initiatives were announced that are intended to streamline the administration and enhance the fairness and flexibility of the property tax system. These initiatives include:

- Conducting province-wide assessments annually, and including dialogues with taxpayers, municipalities, and the Municipal Property Assessment Corporation as part of the process, to identify policies, procedures, and standards that could be implemented to enhance service delivery and improve taxpayer satisfaction.
- Assessment averaging is scheduled to be implemented in less than two years. A public review will be

undertaken to provide advice to the Ministry of Finance on its implementation. Pending the outcome of this review, implementation is proposed to be deferred from 2005 to a date to be later determined. A notice period of 18 months will be proposed to allow municipalities sufficient time to undertake the operational and systems changes that would be required to support this measure.

- Reclassifying licensed rooming houses as residential properties, rather than multi-residential properties.
- Providing a process to authorize the acceptance of inclusions in the farm property class where there are mitigating circumstances, such as a change in ownership.
- Expanding the eligibility criteria for managed forests property classes to permit municipalities to increase such areas, and to reduce the municipal portion of the tax rate on this class to less than 25% of the residential tax rate.

Land Transfer Taxes

- Certain life leases, which are a form of housing for seniors whereby the owner of a life lease has the exclusive right to occupy a residential dwelling for life, would be exempt from Land Transfer Tax. Such qualifying leases would be those with agreements between a registered charity for income tax purposes, or a non-profit organization as specified by regulation, and the owner of the life

lease. This exemption will be retroactive to the application of land transfer tax to unregistered dispositions of land.

- Transfers of farmland between family members would be exempt from Land Transfer Tax for qualifying transfers made after March 27, 2003.

RETAIL SALES TAX

Retail Sales Tax Rebate for Renewable Energy Systems

The existing retail sales tax rebate for solar energy systems is now being expanded to include wind energy systems, micro-hydroelectric systems and geothermal heating/cooling systems for residential premises. This expanded exemption is available for purchases made after March 27, 2003 and before November 26, 2007.

Rebate for Alternative Fuel Vehicles

For qualifying alternative fuel vehicles delivered to purchasers after March 27, 2003, the retail sales tax rebate has been doubled to a maximum of \$2,000 per vehicle. The maximum rebate for propane vehicles remains at \$750.

Expansion of Rebate for Capital Investment by Charities

The retail sales tax rebate program on capital investment by qualifying religious, benevolent and charitable organizations is being expanded to cover construction of facilities which will be leased on a long term basis immediately upon completion.

To qualify the building must be: transferred to the charity immediately following substantial completion, the lease must have a term of at least 20 years, and the charity must have the right to acquire the building for nil or nominal consideration at the end of the lease. The new rules apply to contracts entered into after March 27, 2003. Transitional rules will provide for partial rebates for contracts entered into before March 27, 2003.

Retail Sales Tax on Multi-Jurisdictional Commercial Vehicles

Following suggestions from the trucking industry, the Ontario Government will consult with the industry on the merits of extending the modified retail sales tax system for multi-jurisdictional vehicles to all heavy commercial vehicles.

Retail Sales Tax Purchase Exemption Certificates

The retail sales tax rules pertaining to the use of Purchase Exemption Certificates will be changed to reduce compliance requirements. Purchase Exemption Certificates will no longer require a signature or a list of exempt items and will no longer have an expiry date. To simplify the purchase of eligible farm-related supplies, equipment and building materials, qualifying farmers will be allowed to use a farmer identification card in lieu of a Purchase Exemption Certificate.

Retail Sales Tax Waiver

To achieve consistency with the Corporations Tax Act and Employer Health Tax Act, the Retail Sales Tax will be amended to provide authority for the

Minister of Finance to seek a waiver from taxpayers where the period for taxes owing is about to become statute-barred. This will allow taxpayers time to gather additional information to support their position without the concern that an estimated assessment would be issued.

OTHER MEASURES

Labour Sponsored Investment Funds

Labour Sponsored Investment Funds are a significant source of venture capital for many small public companies that are unable to access capital in today's market environment. In order to improve access to capital for these businesses, the following changes are proposed:

- Restrictions on investments in companies listed on a stock exchange would be relaxed to permit these funds to invest up to 25% of their investments in listed companies, rather than 15%.
- The definition of a small business would be changed to increase the maximum asset size of an eligible small business to \$6 million.
- Because the federal Labour Sponsored Investment Funds program parallels that of Ontario, the province will approach the federal government to undertake joint action to increase permissible investment limits to \$18 million in businesses with up to \$60 million of assets.

Community Small Business Investment Funds Act

The Community Small Business Investment Funds program was introduced in 1997 to promote greater access to capital for growing businesses with \$1 million or less in assets and has become an important source of capital for universities and hospitals that are commercializing research. The following changes have been proposed to facilitate the establishment of additional Community Small Business Investment Funds.

- The current deadline of December 31, 2003 for the registration of a fund would be extended to December 31, 2004.
- The requirement for a fund to obtain investment from a financial institution or Labour Sponsored Investment Fund prior to registration would be removed.
- The investment incentive available to individuals and corporations would be increased from a maximum of 15% to 30%. Half of this maximum incentive would be available at the time of an investment in a fund, and the other half when the fund invests in a small business.

Improving Taxpayer Information

The Budget announced the implementation of Service Commitments and Standards for Tax Administration, which include seven commitments to taxpayers and 18 standards that will be measured and reported upon annually. These standards and commitments are intended to hold the government and its employees accountable for the quality of service provided to taxpayers, and to help ensure

that tax laws are administered with courtesy and fairness.

Further, the Ministry of Finance will send taxpayers with annual payrolls between \$300,000 and \$400,000 information packages reminding them of their potential obligation to pay Employer Health Tax.

Microbreweries

To encourage growth and development of Ontario's microbrewery sector, the fees levied by the Alcohol and Gaming Commission of Ontario will be reduced effective May 26, 2003.

Electricity Act Transfer Tax

A 33% transfer tax is applied to the value of electricity assets transferred from a municipality or municipal electric utility to another person. To encourage efficiencies and rationalization in the public sector, an exemption from this tax will be provided for transfer to other municipalities or municipal electric utilities occurring after March 27, 2003 and before March 28, 2005.

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