

Tax highlights from the 2010 Ontario budget

Finance Minister Dwight Duncan tabled the 2010 Ontario provincial budget on March 25, 2010. The minister confirmed that the estimated deficit for the nearly completed 2009-2010 fiscal year is \$21.3 billion. The budget projects a deficit of \$19.7 billion for the 2010-2011 fiscal year, with deficits continuing until the 2017-2018 fiscal year. Given the challenges of the current economic situation, the budget outlines steps that the province will take to find efficiencies and reduce the overall cost of government administration. These steps include: reducing compensation costs; freezing base operating expenses; and slowing the pace of long-term infrastructure investments.

On the tax side, there were few new measures introduced. Several previously announced personal and corporate tax reductions were confirmed, as was the July 1, 2010 implementation date for the harmonized sales tax.

The following pages are a summary of the changes announced in the budget. Please note that these changes are still proposals until passed into law by the provincial government.

PERSONAL TAX MATTERS

Personal income tax rates

As announced in the 2009 budget, the lowest personal tax rate was reduced by one percentage point, from 6.05% to 5.05%, effective January 1, 2010. The table below shows Ontario tax rates for 2010.

Taxable income range	2010 tax rate
\$8,943 – \$37,106	5.05%
\$37,107 – \$74,214	9.15%
\$74,215 and greater	11.16%

Ontario also imposes a surtax equal to 20% of Ontario income tax in excess of \$4,006, plus an additional 36% of Ontario income tax in excess of \$5,127.

Ontario energy and property tax credit

The budget proposes to convert the Ontario property tax credit to the Ontario energy and property tax credit. This revised refundable tax credit is effective for 2010 and subsequent years and will be paid quarterly beginning in the summer of 2011. Details of the proposed changes will be provided later in the year.

Northern Ontario energy credit

The 2010 budget proposes a new refundable tax credit for low- and middle-income residents of northern Ontario, in recognition of their higher energy costs. This credit will be effective for 2010 and subsequent years and will provide a maximum annual credit of \$130 for a single individual. The credit would be reduced when the individual's net income exceeds \$35,000 and would be eliminated at an income level of \$48,000. Families would be eligible for an annual credit

of up to \$200 that begins to be reduced when family income is in excess of \$45,000, and is eliminated when family income exceeds \$65,000.

CORPORATE TAX MATTERS

Corporate income tax rates

The government, in this budget, indicated its intention to carry through with previously announced reductions to corporate income tax rates beginning on July 1, 2010. Rates are pro-rated for taxation years which include July 1 of any particular year. The proposed rates are shown in the following table:

Date	General Income	M&P Income	Small Business Income	Small Business Deduction Surtax
Current	14.0%	12%	5.5%	4.25%
July 1, 2010	12.0%	10%	4.5%	0.00%
July 1, 2011	11.5%	10%	4.5%	0.00%
July 1, 2012	11.0%	10%	4.5%	0.00%
July 1, 2013	10.0%	10%	4.5%	0.00%

Once these rate reductions are fully phased in, the combined federal-provincial tax rate will be 25% on general income and 15.5% on small business income qualifying for the \$500,000 small business limit. In addition, elimination of the small business deduction surtax will remove the punitive taxation rate for small businesses with taxable incomes between \$500,000 and \$1.5 million.

Corporate capital tax

This budget once again confirms the government's intention to eliminate the capital tax for all corporations effective July 1, 2010.

Taxation of corporate groups

The federal government, in its 2010 budget, indicated that it would explore the taxation rules as they apply to corporate groups. Particular issues to be reviewed include consolidated reporting and the use of tax losses within a corporate group. Ontario wants to ensure that losses be used in the province where the loss takes place so that the principles of inter-provincial tax allocation are preserved.

OTHER PROPOSALS

Ontario sales tax harmonization benefit

The budget confirmed that the previously announced Ontario sales tax harmonization benefit will be paid to eligible families and individuals in June 2010, December 2010, and June 2011. It will be necessary to file an income tax return to get these transitional payments.

A family with income of up to \$160,000 will receive three payments totalling \$1,000. The benefit will be phased out at a rate of \$1 for each additional \$20 of income, so a family with an income of \$166,700 or more would receive no benefit.

A single person with income of up to \$80,000 will receive three payments of \$100. The benefit will be phased out at a rate of \$1 for each \$20 of additional income, with no benefit paid if income is \$82,000 or more.

Ontario sales tax credit

The budget also confirmed that this previously announced refundable sales tax credit will be paid quarterly beginning in August 2010. The maximum annual benefit will be \$260 for each child and adult. The credit will be reduced by 4% of family income in excess of \$20,000 for individuals, and \$25,000 for families.

Senior homeowners' property tax grant

This budget confirms that low- and moderate-income senior citizen homeowners will continue to receive a property tax grant. This grant, which was originally announced in the 2008 budget, will be a maximum of \$500 for 2010.

Sales tax measures

The budget proposes various amendments to the Retail Sales Tax Act to support the introduction of the harmonized sales tax, and to reflect the fact that certain types of insurance will remain subject to retail sales tax, even after introduction of the HST.

Measures relating to the 2010 federal budget

Ontario's tax legislation and regulations will be amended to incorporate measures announced in the March 4, 2010 federal budget, once they are adopted. These measures include:

- allowing a deceased person's registered plan proceeds to roll over to the registered disability savings plan of a financially dependent infirm child or grandchild;
- allowing single parents the option of having the universal child care benefit treated as income of a dependent child;
- excluding expenses incurred for purely cosmetic reasons from qualifying for the medical expense tax credit;
- clarifying the rules for the scholarship exemption and education tax credit for research based programs;
- revising the tax treatment of employee stock options to disallow double deductions, limit deferrals, and, in certain cases, to limit the tax liability to the value of proceeds received on disposition;
- adjusting the inclusion rate for certain U.S. social security benefits;
- revising the disbursement quota rules for charities; and
- adopting new federal rules relating to capital cost allowance.

Pension reform

In concert with the federal and other provincial governments, Ontario is in the process of reviewing the retirement income system. The purpose is to ensure that the system remains viable for pensioners, plan members, and plan sponsors.

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