

## Tax highlights from the 2014 Ontario budget

Finance Minister Charles Sousa tabled the 2014 Ontario provincial budget on May 1, 2014. The minister confirmed that the estimated deficit for the recently completed 2013-2014 fiscal year is \$11.3 billion, \$400 million less than anticipated at this time last year. The budget projects a deficit of \$12.5 billion for the 2014-2015 fiscal year, with deficits continuing until the 2017-2018 fiscal year. Total revenue for 2014-2015 is projected to increase by 2.8% to \$118.9 billion, while total spending is expected to increase by 2.7% to \$130.4 billion.

On the tax side, the budget included significant personal income tax increases for high income earners. There were no changes to corporate income tax rates.

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

Tax brackets and personal credit amounts have been indexed by 1% for 2014. The table below shows Ontario tax rates and brackets before the changes announced in the budget.

| Taxable income range  | Current tax rates |
|-----------------------|-------------------|
| \$9,671 - \$40,120    | 5.05%             |
| \$40,121 - \$80,242   | 9.15%             |
| \$80,243 - \$514,090  | 11.16%            |
| \$514,091 and greater | 13.16%            |

The budget proposes to reduce the taxable income threshold for the 13.16% tax bracket from \$514,090 to \$220,000. It also proposes to add a new tax rate of 12.16% for taxable incomes between \$150,000 and \$220,000. These changes would apply to taxation years ending after December 31, 2013. The new \$150,000 and \$220,000 thresholds would not be indexed to inflation. The table below shows the new Ontario tax rates and brackets for 2014.

| Taxable income range  | 2014 tax rates |
|-----------------------|----------------|
| \$9,671 - \$40,120    | 5.05%          |
| \$40,121 - \$80,242   | 9.15%          |
| \$80,243 - \$150,000  | 11.16%         |
| \$150,001 - \$220,000 | 12.16%         |
| \$220,001 and greater | 13.16%         |

Ontario also imposes a surtax equal to 20% of Ontario income tax in excess of \$4,331, plus an additional 36% of Ontario income tax in excess of \$5,543.

### **Dividend tax credit**

As a result of the increase in the tax rate on non-eligible dividends included in the 2013 federal budget, it is necessary to adjust the provincial tax credit rate on non-eligible dividends to maintain corporate tax integration. The government also noted that it intends to improve fairness in the tax system by eliminating the surtax benefit that high income earners receive on dividend income.

The budget proposes to maintain the 4.5% dividend tax credit on non-eligible dividends. The highest combined federal and provincial tax rate on non-eligible dividends will increase from 36.47% to 40.13%, for 2014.

The budget also proposes to increase the dividend tax credit on eligible dividends from 6.4% to 10%. The highest combined federal and provincial tax rate on eligible dividends will increase from 29.52% to 33.82%, for 2014.

### **Food donation tax credit for farmers**

The budget noted that Ontario introduced a new 25% non-refundable tax credit for farmers who donate food to community food programs, including food banks. The credit is effective for 2014 and subsequent years and is based on the value of the agricultural goods donated.

### **Other federal tax measures**

The budget confirms that Ontario will parallel certain other personal tax measures introduced in the 2014 federal budget, relating to:

- qualifying medical expenses;
- farmers and fishers;
- amateur athlete trusts;
- donations by estates;
- non-resident trusts;
- pension transfer limits;
- donation of ecologically sensitive land and certified cultural property; and
- new limitations on shifting income to a minor child.

The budget also noted that Ontario would parallel the federal HST change to exempt certain health-related services and medical devices.

## **CORPORATE TAX MATTERS**

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### **Corporate income tax rates**

There were no changes to corporate income tax rates in the budget. The table below shows Ontario tax rates and the small business limit for 2014.

| <b>Category</b>                 | <b>2014 tax rates</b> |
|---------------------------------|-----------------------|
| General rate                    | 11.5%                 |
| Manufacturing & processing rate | 10.0%                 |
| Small business rate             | 4.5%                  |
| Small business limit            | \$500,000             |

## **Small business deduction**

The budget proposes to implement measures, similar to the federal rules, which phase out the small business deduction (SBD) for Canadian controlled private corporations (CCPCs) and associated groups of CCPCs with more than \$10 million of taxable capital in Canada in the previous year. The SBD is eliminated in situations where taxable capital is in excess of \$15 million in the previous year. These measures would be effective for taxation years that end after May 1, 2014 and would be pro-rated for taxation years that straddle that date.

## **Business tax credit review**

The budget notes that the expert panel reviewing the effectiveness and sustainability of various refundable tax credits and government funding initiatives for business is continuing its review. The panel is expected to release its report this spring.

The budget also confirms that the government is reviewing options to restructure tax support for research and development. It is considering an incremental approach that would reward businesses that increase their investment by offering an additional enhanced credit for incremental investment.

## **Aggressive tax planning**

The budget confirms the government's intention to introduce legislation that requires increased disclosure of aggressive tax avoidance transactions similar to rules introduced by the federal government. Aggressive transactions that are aimed at avoiding Ontario provincial income tax are specifically targeted by this measure.

## **Apprenticeship training**

The budget proposes to review the apprenticeship training tax credit and the cooperative education tax credit for large businesses with the intention of making these credits non-refundable. The government is also continuing to review these credits to make them more effective.

## **Other federal tax measures**

The budget confirms that Ontario will parallel certain other corporate tax measures introduced in the 2014 federal budget, relating to:

- accelerated CCA for clean energy generation equipment; and
- tax on insurance swaps and offshore regulated foreign financial institutions.

## **OTHER PROPOSALS**

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### **Tobacco tax**

The budget increases the tax per cigarette from 12.350 cents to 13.975 cents effective 12:01 am, May 2, 2014. This will increase taxes on a carton of 200 cigarettes by \$3.25 (from \$24.70 to \$27.95). This same increase will also apply to other tobacco products. The tax rate on cigars remains unchanged at 56.6% of the taxable price.

### **Taxation of testamentary trusts**

The budget notes that Ontario is reviewing the measures proposed in the 2014 federal budget that would impose high rate taxation on testamentary trusts and certain estates in 2016.

### **Pooled registered pension plans**

The budget notes that Ontario plans to introduce pooled registered pension plans (PRPPs) in the fall of 2014. The legislation will be consistent with that introduced by the federal government and various provincial governments.

## **Ontario retirement pension plan**

The budget proposes to introduce a mandatory new provincial pension plan that would operate in a similar manner to the Canada Pension Plan (CPP). This new plan would be introduced in 2017 and would be publically administered at arm's length from the Ontario government. The intention is to phase in the introduction, beginning with large employers, with contributions phased in over two years. Employers and employees that already participate in a workplace pension plan would not be required to enroll in this new plan.

The plan would require equal contributions shared between the employee and the employer. The contributions would not exceed 1.9% each on earnings, up to an annual maximum threshold of \$90,000, which would be indexed each year.

Consultations will be held to determine how to best assist self-employed individuals.

## **Ontario child benefit**

The budget announced that the maximum annual benefit will increase to \$1,310 per child in July 2014. The government proposes linking future increases to the Ontario inflation rate, beginning in July 2015.

## **Minimum wage**

The budget announces an increase to the minimum wage in Ontario to a rate of \$11.00 per hour, effective June 1, 2014. The government has introduced legislation to tie the minimum wage to inflation, beginning in October 2015.

## **Tax on aviation fuel**

The budget proposes to increase the tax on aviation fuel from the current rate of 2.7 cents per litre. The proposed increase is 1 cent per litre for each of the next four years. The 2014 increase will be effective when the legislation receives Royal Assent. Subsequent increases will be effective on April 1 of 2015, 2016 and 2017. On April 1, 2017 the tax rate will be 6.7 cents per litre.

## **Land transfer tax**

The budget proposes to introduce a general anti-avoidance rule into the Land Transfer Tax Act. The new rules would be applicable to transactions, and series of transactions, that are completed after May 1, 2014.

## **Registration of road building machines**

The budget proposes to require registration of unregistered road building machines that use public roads and highways. This includes mobile cranes, concrete pumpers and hydrovacs. After registration, these vehicles would no longer be permitted to use tax-exempt diesel fuel.

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