

Tax highlights from the 2012 Ontario budget

Finance Minister Dwight Duncan tabled the 2012 Ontario provincial budget on March 27, 2012. The minister confirmed that the estimated deficit for the nearly completed 2011-2012 fiscal year is \$15.3 billion, \$1 billion less than anticipated at this time last year. The budget projects a deficit of \$15.2 billion for the 2012-2013 fiscal year, with deficits continuing until the 2017-2018 fiscal year. Total revenue for 2012-2013 is projected to increase by 2.7% to \$112 billion, while total spending is expected to increase by 1.4% to \$126 billion.

On the tax side, the budget does not include any significant changes to personal tax measures; however, previously announced corporate tax rate reductions have been frozen until the budget is balanced.

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

There are no changes to personal income tax rates for 2012, which are shown in the table below, although the tax brackets have been indexed by 3.3% to reflect the effect of inflation.

Taxable income range	2012 tax rates
\$9,406 - \$39,020	5.05%
\$39,021 - \$78,043	9.15%
\$78,044 and greater	11.16%

Ontario also imposes a surtax equal to 20% of Ontario income tax in excess of \$4,213, plus an additional 36% of Ontario income tax in excess of \$5,392.

Ontario trillium benefit

In order to better align the timing of this assistance for low and middle-income earners with their household expenditures, the benefit will be paid monthly beginning in July 2012 based on an individual's 2011 tax return. The government has heard that there are many people who would still prefer to receive their benefit in a lump sum at tax filing time. The budget indicates that the government will look at providing that option.

Healthy homes renovation tax credit

The budget confirms that this previously announced 15% refundable tax credit – on up to \$10,000 of eligible renovation expenses incurred on or after October 1, 2011 to allow increased mobility and accessibility to seniors – will be effective for 2012 and subsequent years.

CORPORATE TAX MATTERS

Corporate income tax rates

The budget proposes to freeze corporate income tax rates at current levels until the budget is projected to be balanced in 2017-2018. The previously announced reductions of the general corporate income tax rate to 11% on July 1, 2012 and to 10% on July 1, 2013 will be deferred. The table below shows Ontario tax rates and the small business limit for 2012.

Category	2012 tax rates
General rate	11.5%
Manufacturing & processing rate	10.0%
Small business rate	4.5%
Small business limit	\$500,000

Scientific research & experimental development

The budget indicates that Ontario will continue to review the effectiveness of research and development (R&D) tax credits in support of innovation. Ontario agrees with the federal panel that there is a need for greater federal-provincial collaboration regarding R&D tax support. The government intends to seek advice from the Jobs and Prosperity Council with regard to improved R&D tax support and simplification of compliance and administration.

Apprenticeship training

The budget notes that the province will review the efficiency and effectiveness of the apprenticeship training tax credit in supporting the completion of apprenticeships.

Corporate tax avoidance

Transactions that shift income or losses across provincial or international borders erode the province's revenue base. The budget indicates that Ontario will consider implementing measures similar to those introduced in Quebec to fight aggressive tax planning schemes. Ontario intends to work with the federal government to ensure that income or losses are properly allocated to the jurisdiction where the underlying economic activity occurred.

Taxation of corporate groups

Ontario will continue to work with the federal government to strengthen the integrity of the corporate tax system by ensuring that corporations apply losses in a reasonable manner that supports the principles of inter-provincial tax allocation.

Compliance with tax obligations

The budget proposes measures that would require recipients of government grants and other forms of direct government assistance to be compliant with their tax obligations. These proposals would also apply to businesses that bid on government contracts and projects where provincial funding is involved.

Mining sector review

The government had previously introduced several mining tax incentives to encourage investment in the sector when corporate income tax rates were higher. Given that tax rates have been reduced, the budget proposes a review of the current mining tax system with stakeholders to ensure that the province receives fair compensation for its non-renewable resources.

Employer health tax

The budget indicates that Ontario will strengthen its administrative practices in determination of an employer-employee relationship. Ontario will continue to use federal rulings to assist in determining if an employee-employer relationship exists, but will not be bound by those rulings, effective for EHT assessments issued after March 27, 2012.

OTHER PROPOSALS

Business education tax

The budget proposes a temporary freeze to the previously announced business education tax reduction plan, effective in 2013. All previously implemented rate reductions will not be reversed. The government intends to resume the rate reductions once the budget is balanced.

The underground economy

The budget indicates that Ontario will consider implementing measures similar to those introduced in Quebec to fight the underground economy, including:

- Measure to mitigate the use of point of sale software designed to conceal sales.
- Measures to enhance information sharing across Ontario ministries, municipalities and with the Canada Revenue Agency.
- Measures to help identify those who facilitate and participate in tax evasion schemes.

Tobacco Tax

The government intends to double enforcement efforts and provide additional compliance tools in order to reduce the availability of cheap, illegal tobacco and increase tobacco tax revenue over the next three years.

Sales tax measures

The budget proposes measures to facilitate the wind down of the retail sales tax (RST). The deadline for most applications for refunds and rebates will be December 31, 2012, with the exception of the application period for RST refund and rebate applications in respect of insurance premiums and private vehicle transfers, which will remain unchanged.

Pension matters

The budget notes that Ontario has a number of concerns with the proposals for the new federal pooled retirement pension plan (PRPP). Ontario intends to continue working collaboratively with the other provinces and the federal government to develop this model. However, Ontario believes that an enhanced Canada Pension Plan should be part of a comprehensive approach to pension reform.

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