

# **CC & C PROFESSIONAL CORPORATION**

## **Chartered Accountant**

### **2009 Ontario Budget Overview**

The Ontario 2009 Budget was released on March 26, 2009. The Budget contains significantly increased spending measures attempting to stimulate Ontario's economy, including a plan to spend \$32.5 billion on infrastructure over two budget years. The most significant proposal in the Budget relates to harmonizing Ontario's Retail Sales Tax ("RST") with the federal Goods and Services Tax ("GST"). The Budget proposes a variety of corporate tax rate reductions, personal tax credits and other measures, and pension reform.

#### **GST and RST Sales Tax Harmonization ( HST )**

The Budget announced that Ontario will adopt a Harmonized GST and RST sales tax effective July 1, 2010., Ontario will permit the federal government to impose a harmonized sales tax ("HST") in the province at a combined rate of 13% (with Ontario taking 8% of the 13%) on a much broader base of goods and services.

The justification for transitioning to the HST is largely presented as the enhancement of economic and manufacturing competitiveness for export, although it may harm consumers in the short run and create a huge government revenue generating system for an improved economy. The Budget details numerous incentives offered to make the transition palatable to voters, including an enhanced new housing rebate, cash payments to middle and lower income families and individuals, and extraordinary point-of-sale rebates on politically sensitive purchases such as books and children's products. The proposed rules also promise that public service bodies such as municipalities, hospitals, schools, and universities( MUSH Sector), as well as charities and qualifying non-profit organizations, will be permitted to claim rebates that essentially make them indifferent to the imposition of the HST.

The rules leading up to the implementation will have to be carefully reviewed by the specific businesses affected so that it's impact on affect will be understood, prior to July 1, 2010

## Financial Services

The clear losers in the move to the HST are financial services institutions, such as banks and insurance companies, that are highly limited in their ability to claim input tax credits by reason of the fact that they make supplies of predominantly tax-exempt services. Many of the services that these institutions consume (such as legal and accounting services and often outsourced information technology services) were not subject to the existing RST. These services will now attract an additional 8% tax that is largely unrecoverable. In the case of the insurance industry, Ontario will also impose a new insurance premium tax (to replace the RST that applied to insurance premiums) on most types of insurance other than automobile coverage, which seems rather unfair given that the denial of input tax credits is supposed to be the equalizer in situations where tax-exempt supplies are made.

## Transition to the HST

On a technical level, a key issue for the introduction of the HST in Ontario will be the need for transitional rules to deal with transactions that straddle the July 1, 2010 implementation date such as sales of new residential housing and pre-payment arrangements. The Budget details do not give information on these rules and only state that additional information will be released in the coming months. The transitional rules for Ontario are likely to be similar to those that were introduced when other provinces entered into the harmonized tax system on April 1, 1997. We recommend that our client businesses seek advice on the timing for the acquisition of goods and services in the period running up to the proposed implementation date.

## Capital Tax

The 2009 Budget confirmed Ontario's previously announced commitment to accelerate the elimination of Ontario's capital tax. Pursuant to the accelerated schedule, the general capital tax rate will decrease to 0.15% (from the current 0.225%) on January 1, 2010, and will be eliminated on July 1, 2010.

## Ontario Corporate Income Tax

The Budget announced certain significant corporate income tax rate reductions for manufacturers, small business corporations, and general rate corporate taxpayers, as follows:

Ontario Only	General Corporate Rate	Manufacturing & Processing ("M&P") Rate	Small Business Rate	Small Business Deduction Surtax
Current	14%	12%	5.5%	4.25%
July 1, 2010	12%	10%	4.5%	0
July 1, 2011	11.5%	10%	4.5%	0
July 1, 2012	11%	10%	4.5%	0
July 1, 2013	10%	10%	4.5%	0

The Small Business rate applies to the first \$500,000 of active business income earned by Canadian-controlled private corporations ("CCPCs"). The Small Business Deduction Surtax currently 'claws-back' the benefit of the low rate on small business income, such that corporations with earnings in excess of \$1.5 million do not benefit from the Small Business rate.

The general corporate and M&P rate reduction proposals will compare with other Canadian and international jurisdictions for cost competing for jobs and investment. Interestingly, the general corporate rate reduction from 14% to 12% largely restores the corporate rate that was in force (12.5%) prior to the current Liberal government taking power in 2003.

## Ontario Corporate Minimum Tax

Ontario's corporate minimum tax is a tax on a corporation's adjusted net income. A corporation pays the greater of the CMT and the corporate income tax otherwise determined. The Budget proposes to amend the CMT effective for taxation years ending after June 30, 2010 to correspond with the corporate income tax rate reductions and, further, to exempt corporations with less than \$50 million of assets or \$100 million of gross revenues (measured on a consolidated basis with associated corporations).

## Other Tax Measures

Ontario included several measures in the Budget with a view to creating jobs and growth:

- a. The Film Industry will get to extend indefinitely the 35% Ontario Film and Television Tax Credit and the 25% Ontario Production Services Tax Credit.
- b. Technology based industry will get to enhance the rates for the Ontario Interactive Digital Media Tax Credit for corporations that develop and/or market eligible products and to enhance the portion of expenditures eligible for the Ontario Computer Animation and Special Effects Tax Credit .
- c. The Budget also included enhanced tax incentives for book publishing, co-operative education employment tax credits, and apprenticeship training.
- d. The Budget contains a variety of relieving measures to comply with certain Federal Budget announcements, including: (i) the temporary 100% capital cost allowance ("CCA") rate for eligible computers and software; (ii) the extension through 2011 of the enhanced 50% straight line CCA rate for M&P machinery; and (iii) the enhancement of the Ontario Innovation Tax Credit for businesses undertaking eligible scientific research and experimental development.

## Pension and Related Matters

In light of recent circumstances, including the recent Ontario Expert Commission on Pensions report and the negative effect of stock market performance on the health of pension funds, it is

not surprising that issues relating to registered pension plans ("RPPs") were given special attention in the Budget.



## Ontario Personal Income Tax

The Budget proposes to reduce the personal income tax rate applicable to the lowest income bracket (taxable income up to \$36,848) from 6.05% to 5.05%, effective January 1, 2010. The rates for the middle and high income brackets remain unchanged. The cost of this relief will be carried, in part, by high income taxpayers who will be subject to increased Ontario surtax, effective 2010 when the thresholds for both tiers of Ontario surtax will be lowered. As a result of the proposed corporate income tax rate reductions discussed above, the Budget proposes to increase the effective personal tax rate on dividends from taxable Canadian corporations through reductions in the dividend tax credit.

## Funding Relief for Defined Benefit RPPs

Consistent with its December 2008 announcement, Ontario proposes to adopt regulations in respect of the first valuation dated on or after September 30, 2008 to (a) allow consolidation of existing solvency deficiencies to start a new 5 year funding schedule, (b) defer for one year the start of special payments for newly arising going-concern or solvency deficiencies, and (c) provided no more than one-third of plan participants refuse to consent, allow any newly identified solvency deficiency to be funded over 10 years instead of 5 years.

## Miscellaneous Matters

The Budget describes Ontario's continuing commitment to pension modernization but in general terms for the most part.

The Budget proposes greater access to otherwise "locked-in" funds that originated in RPPs by (a) increasing the amount that may be withdrawn on a transfer to a new Life Income Fund from 25% to 50% effective January 1, 2010 (and allowing the same for earlier forms of locked-in RRIFs) and (b) waiving application fees under the financial hardship withdrawal rules from April 1, 2009 to March 31, 2011.

Please call us for any questions.

