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2017 ONTARIO BUDGET

Wealth Planning Group, Assante Private Client

Tax highlights from the 2017 Ontario budget

Finance Minister Charles Sousa tabled the 2017 Ontario provincial budget on April 27, 2017. The minister confirmed that the government is projecting a deficit of $1.5 billion for the recently completed 2016-2017 fiscal year – an improvement of $2.8 billion compared with the 2016 budget forecast. The government is projecting a return to balanced budgets for the 2017-2018 fiscal year and the following two years.

On the tax side, there were no changes to personal or corporate income tax rates. There was, however, a commitment from the government to review the tax system in order to identify and eliminate what it perceives to be "loopholes", in order to achieve greater fairness in the system.

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

PERSONAL TAX MATTERS

Personal income tax rates

There were no changes to personal income tax rates in the budget.

Tax brackets (other than the $150,000 and $220,000 brackets) and personal credit amounts have been indexed by 1.6% for 2017. The table below shows Ontario tax rates and brackets for 2017.

Taxable income	2017 tax rates
$10,172 - $42,201	5.05%
$42,202 - $84,404	9.15%
$84,405 - $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 $4,556, plus an additional 36% of Ontario income tax in excess of $5,831.

The table below shows the combined federal and provincial highest marginal tax rates for various types of income.

Type of income	2017 combined tax rates
Regular income	53.53%
Capital gains	26.76%
Eligible dividends	39.34%
Non-eligible dividends	45.30%

Ontario seniors' public transit credit

The budget proposes a new public transit tax credit for all Ontario residents over the age of 65. This new credit will be for public transit costs incurred on or after July 1, 2017. Further details will be announced before the implementation date.

Medical expense credit

The budget proposes to extend the provincial medical expense tax credit to cover certain expenses for individuals who require medical intervention to conceive a child. This change parallels a change announced in the 2017 federal budget. It will be effective for the 2017 and subsequent tax years.

Ontario caregiver tax credit

The budget proposes to replace the existing provincial caregiver and infirm dependant tax credits with the new Ontario caregiver tax credit, effective January 1, 2017. This change parallels changes made in the 2017 federal budget, and is as follows:

- The new non-refundable credit is available in respect of relatives who are infirm dependants, including adult children of the claimant or of the claimant's spouse or common-law partner;
- Dependants would not be required to live with the caregiver claiming the credit;
- The credit would not be available in respect of non-infirm senior parents or grandparents who reside with their adult children or grandchildren;
- For 2017, the maximum credit amount is $4,794; and
- The credit would begin to be phased out at a net income level of $16,401.

Multi-jurisdiction tax filers

The budget proposes a technical amendment to the way the Ontario surtax and the Ontario tax reduction are calculated for the following individuals:

- Ontario residents who pay tax to another province; and
- Non-residents of Ontario who pay tax to Ontario.

The changes are effective for taxation years ending after December 31, 2016. The budget proposes to change the calculation to ensure that the surtax and tax reduction are calculated based on the percentage of income allocated to Ontario.

CORPORATE TAX MATTERS

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 2017.

Category	2017 tax rates
General rate	11.5%
Manufacturing and processing rate	10.0%
Investment income rate	11.5%
Small business rate	4.5%
Small business limit	$500,000

The table below shows the 2017 combined federal and provincial corporate income tax rates for various types of income earned by a Canadian Controlled Private Corporation (CCPC).

Type of income	2017 Combined tax rates
Small business income	15.0%
Active income over $500,000	26.5%
Manufacturing and processing income	25.0%
Investment income	50.2%

Small business limit

The budget proposes to implement changes to the small business deduction limit rules to parallel those made by the federal government in its 2017 budget. The provincial limit will be reduced by the same amount as the federal reduction in certain cases where a company assigns any portion of its business limit to another company.

Employer health tax

The budget proposes to restrict access to the employer health tax exemption in cases where companies use complex structures to multiply access to the exemption. In particular, this proposal is targeted at any employer that is a "designated member" of a partnership. This measure will not take effect before January 1, 2018, in order to provide time for stakeholder feedback and consultation.

Ontario computer animation and special effects tax credit

As previously announced, the budget proposes to introduce a provision to ensure that talk shows are listed as ineligible productions for the purposes of provincial film and television tax credits.

Review of tax planning using private corporations

Ontario intends to review tax planning strategies using private corporations, expressing similar concerns to those put forward by the federal government in its 2017 budget.

The government has expressly identified such strategies as income splitting with family members, making passive investments through a corporation (instead of personally), and converting regular corporate income to capital gains.

The province intends to conduct its review in concert with the federal government, in order to address tax loopholes and sophisticated tax planning schemes.

OTHER PROPOSALS

Non-resident speculation tax

As previously announced on April 20, 2017, the government introduced a 15% non-resident speculation tax on foreign entities or taxable trustees purchasing a residential property in the Greater Golden Horseshoe region of Southern Ontario. The new tax will apply to purchase and sale agreements signed after April 20, 2017.

The tax will apply to transfers of land containing at least one but not more than six single family residences. The tax will not apply to multi-unit residential apartment buildings with more than six units or to commercial, industrial or agricultural land.

Tobacco tax

The budget proposes to increase the tobacco tax by $10 per carton of 200 cigarettes over three years. Effective at 12:01 a.m. on April 28, 2017, the tax rate per cigarette and per gram of tobacco products (other than cigars) will increase from 15.475 cents to 16.475 cents.

The rate will subsequently increase by 2 cents each year, to 18.475 cents in 2018 and 20.475 cents in 2019. This replaces the 2016 budget provision that proposed inflation-based tax rate increases.

WE CAN HELP

Your Assante advisor can help you assess the impact of these proposals on your personal finances or business affairs, and show you ways to take advantage of their benefits or ease their impact. The resources available to you and your advisor include Assante Private Client's Wealth Planning Group, a multi-disciplinary team of accountants, lawyers and financial planners.