

Tax highlights from the 2018 Ontario budget

Finance Minister Charles Sousa tabled the 2018 Ontario provincial budget on March 28, 2018. The government is forecasting a surplus of \$0.6 billion in 2017-2018. Real GDP rose 2.7% annually on average over the 2014-2017 period, but is expected to average 1.9% per year between 2018 and 2021. Over the next three years, the government is projecting deficits of \$6.7 billion in 2018–2019, \$6.6 billion in 2019–2020, and \$6.5 billion in 2020–2021. A return to balanced budgets is forecast for the 2024-2025 fiscal year.

On the tax side, changes are proposed to the personal income tax (PIT) system. Specifically, the government proposes to eliminate the Ontario surtax and adjust personal tax brackets and rates to compensate for the change. A change to the Ontario charitable donations tax credit is also proposed. There were no changes to corporate income tax rates, but certain tax credits were enhanced or adjusted.

The following is a summary of changes announced in the budget that we feel are relevant to financial advisors and their clients. Please note that these changes are proposals until passed into law by the provincial government. Given that a provincial election is scheduled for June of this year, it is possible that some or all of these measures will not be adopted.

PERSONAL TAX MATTERS

Personal income tax rates

The budget proposes to eliminate Ontario's surtax and make adjustments to personal income tax brackets and rates, effective January 1, 2018. The tables below show current and proposed Ontario tax rates and brackets for 2018.

Taxable income range (current)	2018 tax rates (current)
First \$42,960	5.05%
\$42,961 - \$85,923	9.15%
\$85,924 - \$150,000	11.16%
\$150,001 - \$220,000	12.16%
\$220,001 and greater	13.16%

Taxable income range (proposed)	2018 tax rates (proposed)
First \$42,960	5.05%
\$42,961 - \$71,500	9.15%
\$71,501 - \$82,000	11.00%
\$82,001 - \$92,000	13.50%
\$92,001 - \$150,000	17.50%
\$150,001 - \$220,000	19.00%
\$220,001 and greater	20.53%

The table below shows the 2018 combined federal and provincial highest marginal tax rates for various types of income.

Type of income	2018 combined tax rates
Regular income	53.53%
Capital gains	26.76%
Eligible dividends	39.34%
Non-eligible dividends	46.84%

Elimination of Ontario surtax and introduction of new rates and brackets

Citing simplification of the personal income tax (PIT) system, the budget proposes to eliminate Ontario's surtax and make adjustments to personal income tax brackets and rates, effective January 1, 2018. Ontario currently has five statutory PIT rates plus two surtax rates calculated separately as a tax on tax. The proposed changes would create seven statutory PIT rates applied directly to taxable income. If passed, changes to PIT withholdings would start on July 1, 2018.

Enhanced charitable donation tax credit

The budget proposes to increase the top non-refundable tax credit rate for eligible charitable donations, effective January 1, 2018. Currently, an Ontario charitable donations tax credit (OCDTC) rate of 5.05% applies to the first \$200 in donations and a rate of 11.16% applies to donations that exceed \$200. Ontario is proposing to increase the OCDTC rate to 17.5% for eligible donations exceeding \$200. The first \$200 of donations would continue to be eligible for an OCDTC rate of 5.05%.

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 2018.

Category	2018 tax rates
General rate	11.5%
Manufacturing and processing rate	10.0%
Investment income rate	11.5%
Small business rate	3.5%
Small business limit	\$500,000

The table below shows the 2018 combined federal and provincial corporate income tax rates for various types of income earned by a Canadian Controlled Private Corporation (CCPC).

Type of income	2018 combined tax rates
Small business income	13.5%
Active income over \$500,000	26.5%
Manufacturing and processing income	25.0%
Investment income	50.2%

Ontario research and development (R&D) tax credit

To encourage continued investment in R&D, the budget proposes to enhance the Ontario Research and Development Tax Credit (ORDTC). The ORDTC is a 3.5% non-refundable tax credit on eligible R&D expenditures. Effective for eligible R&D expenditures incurred on or after March 28, 2018, companies that qualify for the ORDTC would be eligible for an enhanced rate of 5.5% on expenditures over \$1 million in a taxation year. The \$1 million threshold would be prorated for short taxation years. The enhanced tax credit rate would not be available to businesses where eligible R&D expenditures in the current taxation year are less than 90% of eligible R&D expenditures in the prior taxation year.

Ontario innovation tax credit

The budget proposes to enhance the Ontario Innovation Tax Credit (OITC). For eligible R&D expenditures incurred on or after March 28, 2018, if a company qualifies for the refundable OITC and has a ratio of R&D expenditures to gross revenues that is:

- 10% or less, the company would remain eligible for the OITC at the current 8% rate;
- Between 10% and 20%, the company would be eligible for an enhanced OITC rate that would increase from 8% to 12% on a straight-line basis as the company's ratio of R&D expenditures to gross revenue increases from 10% to 20%; and
- 20% and above, the company would be eligible for the OITC at a 12% rate.

Ontario interactive digital media tax credit

The budget proposes to extend eligibility for the Ontario Interactive Digital Media Tax Credit to film and television websites purchased or licensed by a broadcaster and embedded in the broadcaster's website. The amendment would apply to websites that host content related to film, television or internet productions that have not received either a certificate of eligibility or letter of ineligibility before November 1, 2017.

Employer health tax exemption

As announced in the 2017 budget, the government confirmed its intention to propose measures to better target the Employer Health Tax (EHT) exemption to small employers. To achieve this, the government proposes to follow the eligibility criteria for the small business deduction (SBD) for the EHT exemption. As a result, the exemption would only be available to individuals, charities, not-for-profit organizations, private trusts and partnerships, and Canadian-controlled private corporations. Legislation for these changes, if passed, would become effective January 1, 2019.

Income sprinkling and the small business limit

The budget confirms that Ontario will parallel the federal government's proposal to address income-sprinkling by extending the tax on split income rules to adult family members who are not active in the business (with certain exceptions), beginning with the 2018 taxation year.

Ontario will also parallel recent proposals announced in the 2018 federal budget that, effective for taxation years beginning after 2018, will phase-out the federal small business limit for CCPCs (and associated corporations) that earn between \$50,000 and \$150,000 of passive investment income in the taxation year.

Closing tax loopholes

In its 2018 budget, the federal government introduced two measures to address the use of sophisticated financial instruments and structured share repurchase transactions by certain Canadian financial institutions to realize artificial tax losses. The measures include proposed amendments to the “synthetic equity arrangement” and “securities lending arrangement” rules, as well as a specific stop-loss rule applicable to share repurchase transactions. Ontario will automatically parallel these changes once federal legislation is approved.

OTHER PROPOSALS

Tobacco tax

Ontario’s tobacco tax will increase from 16.475 cents to 18.475 cents per cigarette and per gram of tobacco products other than cigars, effective 12:01 a.m., March 29, 2018. These changes are equivalent to \$4 per carton of cigarettes. The government plans to further increase the tobacco tax rate by an additional \$4 per carton of cigarettes in 2019.

Land transfer tax

Ontario plans to make a new regulation that would allow land transfer tax arising from certain unregistered dispositions of a beneficial interest in land through certain types of partnerships and trusts to be payable 30 days after the end of the calendar quarter in which the disposition occurred, rather than within 30 days of the disposition. This change is intended to reduce the administrative burden on some businesses.

Free child care for preschool-aged children

Ontario will implement free licensed child care for preschool-aged children from the age of two-and-a-half until they are eligible for kindergarten, beginning in September 2020. Families with children in licensed child care at this age will receive free full-day preschool.

Expanding OHIP+ for seniors

Starting in August 2019, OHIP+ will be expanded to seniors, eliminating the annual deductible and co-payment for seniors under the ODB program. Seniors’ prescription medications funded through the ODB program will be free-of-charge, regardless of income.

Reduced prescription drug and dental costs

Ontario will introduce a new Ontario Drug and Dental Program for individuals and their families who do not have coverage from an extended health plan, starting in summer of 2019. This program would reimburse participants for up to 80% of eligible prescription drug and dental expenses, up to an annual maximum of \$400 for singles and \$600 for couples, plus \$50 for each child in the family. Final design will be informed by consultation.

New seniors’ healthy home program

Ontario proposes to introduce the new Seniors’ Healthy Home Program starting in 2019–2020 to help seniors with the costs of maintaining their homes. The program will provide a benefit of up to \$750 per year for every eligible household led by seniors who are 75 years or older. The government will consult with stakeholders on the design of the benefit, and legislation will be introduced after consultations are completed.

WE CAN HELP

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