

Global Tax Alert

News from Americas Tax Center

Canada: Ontario issues budget 2019/20

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Executive summary

On 11 April 2019, Ontario Finance Minister Victor Fedeli tabled the province's fiscal 2019/20 budget. The budget contains tax measures affecting individuals and corporations. The budget contains no new taxes and no tax increases.

As set out in Table A, the Minister anticipates a deficit of CA\$11.736 billion¹ for 2018-19, and projects deficits for each of the next four years, with a return to balance in 2023/24.

Table A: Projections of Ontario budgetary deficit

	2018/19 (\$ billions)	2019/20 (\$ billions)	2020/21 (\$ billions)	2021/22 (\$ billions)
Revenue outlook	150.8	154.2	159.8	163.7
Program expense outlook	(150.0)	(150.1)	(151.9)	(153.8)
	0.8	4.1	7.9	9.9
Interest on debt	(12.5)	(13.3)	(13.7)	(14.4)
Reserve	(0.0)	(1.0)	(1.0)	(1.0)
Surplus/(Deficit)	(11.7)	(10.3)	(6.8)	(5.6)
Accumulated deficit	220.8	230.0	235.8	240.4

Numbers may not add due to rounding.

Following is a brief summary of the key tax measures.

Detailed discussion

Business tax measures

Corporate tax rates

No changes are proposed to the corporate tax rates or the \$500,000 small business limit.

Ontario's 2019 corporate tax rates are summarized in Table B.

Table B: Ontario corporate tax rates 2019

	2019	
	ON	Federal and ON combined
Small-business tax rate*,**	3.50%	12.50%
General manufacturing and processing tax rate	10.00%	25.00%
General corporate tax rate	11.50%	26.50%

* The small-business rate is based on a 31 December year-end.

** The federal small-business rate was reduced from 10.00% to 9.00% effective 1 January 2019.

Other business tax measures

The Minister proposed the following business tax measures:

- ▶ Cultural media tax credit certification – Ontario currently offers five refundable income tax credits for the cultural media sector: the Ontario film and television tax credit, the Ontario production services tax credit, the Ontario computer animation and special effects tax credit, the Ontario interactive digital media tax credit (OIDMTC), and the Ontario book publishing tax credit. The Government announced that it will review the cultural media tax credit certification process in an effort to streamline administration, reduce the tax credit application backlog, and reduce wait times for tax credit certification.
- ▶ Ontario interactive digital media tax credit – The OIDMTC offers four streams for different types of products and companies, including a specialized digital game corporation stream, for purposes of eligibility for this credit. Currently, a company must spend a minimum of \$1 million on Ontario labor expenditures for eligible digital games in its taxation year to qualify as a specialized digital game corporation. Ontario is proposing to reduce the labor expenditure threshold from \$1 million to \$500,000. This measure would take effect for taxation years commencing after 11 April 2019.
- ▶ Ontario job creation investment incentive – Ontario is paralleling the federal temporary immediate write-off measures in respect of manufacturing and processing machinery and equipment and specified clean energy equipment, and the temporary accelerated investment incentive in respect of most other capital investments. These measures were first announced in the Federal Government's 2018 fall economic statement and are now included in federal Bill C-97.

Personal tax

Personal income tax rates

The budget does not include any changes to personal income tax rates.

The 2019 Ontario personal tax rates are summarized in Table C.

Table C: Ontario personal tax rates 2019

First bracket rate	Second bracket rate	Third bracket rate	Fourth bracket rate	Fifth bracket rate
\$0 to \$43,906	\$43,907 to \$87,813	\$87,814 to \$150,000	\$150,001 to \$220,000	Above \$220,000
5.05%	9.15%	11.16%	12.16%	13.16%

In addition, there is a 20% surtax on basic Ontario tax between \$4,741 and \$6,067, and a 56% surtax on basic Ontario tax in excess of \$6,067.

- Individuals resident in Ontario on 31 December 2019 with taxable income in excess of \$20,000 pay the Ontario Health Premium (OHP). The OHP is not included in the rates above.
- Individuals resident in Ontario on 31 December 2019 with taxable income up to \$15,414 pay no provincial tax as a result of a low-income tax reduction. The reduction is clawed back for taxable income over \$15,414, resulting in an additional 5.05% of provincial tax on income between \$15,415 and \$20,245.

For taxable income in excess of \$150,000, the 2019 combined federal-Ontario personal income tax rates are outlined in Table D.

Table D: Combined federal and Ontario personal tax rates 2019

Bracket	Ordinary income*	Eligible dividends	Non-eligible dividends
\$150,001 to \$210,371	47.97%	31.67%	41.00%
\$210,372 to \$220,000	51.97%	37.19%	45.60%
Above \$220,000	53.53%	39.34%	47.40%

* The rate on capital gains is one-half the ordinary income tax rate.

- There is a 20% surtax on basic Ontario tax between \$4,741 and \$6,067, and a 56% surtax on basic Ontario tax in excess of \$6,067 included in the above rates.
- Individuals resident in Ontario on 31 December 2019 with taxable income in excess of \$20,000 pay the Ontario Health Premium (OHP). The OHP is not included in the rates above.

Other tax measures

Cannabis tax

Ontario intends to introduce the *Cannabis Taxation Coordination Act, 2019*, which would ratify Ontario's Coordinated Cannabis Taxation Agreement.

Carbon tax

Ontario restated its intention to challenge the imposition of the federal carbon tax in court. As well, the province proposes to introduce the *Federal Carbon Tax Transparency Act*, which would require consumers to be informed of the impact of the federal carbon tax on gasoline prices at the point of sale.

Tobacco tax

Ontario announced proposed amendments to raw leaf tobacco provisions in the *Tobacco Tax Act* would establish new penalty and offence provisions relating to the:

- ▶ Use of new track and trace bale markers issued by the Ministry of Finance
- ▶ Failure to notify the minister of the destruction of raw leaf tobacco

Additional tobacco tax amendments would:

- ▶ Remove “baling and packaging” from the definition of producing tobacco and require any raw leaf tobacco certificate to permit baling and packaging
- ▶ Clarify provisions relating to permits

Gasoline tax

Ontario announced that the *Gasoline Tax Act* will be amended to clarify that the Act authorizes the prescribing of requirements for on-reserve retailers in the gasoline tax refund process on sales to First Nations consumers.

Other technical amendments

Ontario will propose amendments to various statutes administered by the Ministry of Finance in an effort to improve administrative effectiveness and enforcement, and maintain the integrity of Ontario's tax and revenue collection system. No further details were provided.

Recently enacted tax measures

The 2019 budget summarized the following measures announced in the Ontario 2018 fall economic statement:

- ▶ Introduction of the non-refundable low-income individuals and families tax (LIFT) credit, effective for 2019 and later taxation years. The LIFT credit provides a maximum credit of \$850 for a single individual and \$1,700 for couples if certain conditions are met (e.g., the individual must have employment income).
- ▶ Amendments to ensure that Ontario does not parallel the federal measure that phases out the \$500,000 small business deduction for a Canadian-controlled private corporation (and any associated corporations) earning between \$50,000 and \$150,000 of passive investment income in the previous taxation year.
- ▶ Extension of certain tax relief measures to encourage private sector development in the Ontario electricity distribution sector, such as reducing transfer tax rates and exempting capital gains arising under the payments in lieu of taxes (PILs) deemed disposition rules. These measures, which were scheduled to expire on 31 December 2018, have been extended to 31 December 2022. The 2019 budget announced that to help electricity rate reduction initiatives, Ontario will use any transfer tax collected for electricity rate relief.
- ▶ Providing a property tax exemption for Ontario branches of the Royal Canadian Legion.

Tax evasion and avoidance

- ▶ In an effort to address tax loopholes and reduce tax evasion, Ontario has created a specialized unit of tax experts who are working with federal and provincial tax officials.

Endnote

1. Currency references in this Alert are to CA\$.

For additional information with respect to this Alert, please contact the following:

Ernst & Young LLP (Canada), Toronto

- ▶ Karen Atkinson karen.e.atkinson@ca.ey.com
- ▶ Neil Moore neil.moore@ca.ey.com

Ernst & Young LLP (Canada), Ottawa

- Ian Sherman ian.m.sherman@ca.ey.com

Ernst & Young LLP (Canada), London

- ▶ John Sliskovic john.t.sliskovic@ca.ey.com

Ernst & Young LLP (Canada), Kitchener

- Cynthia McIntyre cynthia.m.mcIntyre@ca.ey.com

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