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**Ontario
Budget
Commentary**

May 1, 2014

Introduction

On May 1, 2014 Finance Minister Charles Sousa tabled his second Budget.

The deficit for the 2013-14 fiscal year is projected to be \$11.3 billion, which is \$400 million less than the amount estimated when the 2013 Budget was tabled. The deficit for the 2014-15 year is projected to be \$12.5 billion and the longer-term forecast continues to call for a return to a surplus by 2016-17. Net public debt to GDP is projected to continue to increase until 2015-16, from which time it will start to decrease.

Top income earners, large Canadian-controlled private corporations (CCPC), users of aviation fuel and tax-exempt diesel fuel, and smokers will all face increases in the taxes they pay.

Measures Affecting Individuals

Personal Income Tax Rates

The Budget proposes to increase the rate at which tax is paid by top income-earning individuals, now defined as those who have taxable income greater than \$150,000. Two changes are proposed:

- A new intermediate income tax bracket will apply to taxable income over \$150,000 and up to \$220,000. Income in this bracket will be taxed at 12.16%; it was previously taxed at 11.16%
- The top tax rate of 13.16% will apply to taxable income over \$220,000. Prior to the Budget this rate would have applied to taxable income over \$514,090.

Unlike the current threshold limits, these new thresholds will not be adjusted for inflation in the future.

Taxpayers in these brackets will also be subject to both Ontario surtaxes, with the result that the marginal rates of Ontario tax will be 19.0% in the intermediate bracket and 20.5% in the top bracket.

Notably, Ontario's credit for charitable donations over \$200 will be calculated at 11.16%, and not at the top rate of 13.16%.

The combined federal and Ontario marginal rates for these newly defined tax brackets are set out in the following table:

Type of Income	\$150,000 - \$220,000	Over \$220,000
Eligible dividends	31.67%	33.82%
Non-eligible dividends	38.29%	40.13%
Capital gains	23.98%	24.76%
Other income	47.97%	49.53%

Dividend Tax Credit and Surtax Calculations

In the November 2013 Economic Outlook, for 2014 the Ontario dividend tax credit on non-eligible dividends is increased from 4.5% of the taxable dividend to 10%. As was also announced, surtaxes for 2014 will be applied to Ontario tax payable before the dividend tax credit is claimed.

Ontario Child Benefit

From July 1, 2014 this benefit will increase to \$1,310 per child, an increase of about \$60. The benefit amount will be indexed to Ontario inflation from July 1, 2015.

Debt Retirement Charge on Electricity Bills

Starting after 2015 it is proposed that the debt retirement charge will be removed from residential electricity bills. The charge will be maintained on other bills until such time as the hydro debt it is servicing is retired, anticipated to be the end of 2018.

Measures Affecting Businesses

The Budget proposes no changes to corporate income tax rates which remain:

Income	Ontario	Federal	Combined
Small business	4.5%	11.0%	15.5%
M&P	10.0%	15.0%	25.0%
General	11.5%	15.0%	26.5%

Note that the income to which the lower small business rate applies may be reduced for larger corporations, as discussed below.

Small Business Deduction

The Budget proposes the amount on which the Ontario small business tax credit is claimed will be reduced where a CCPC has taxable capital in excess of \$10 million and will be eliminated where taxable capital is \$15 million or more. This change will parallel the federal reduction of the \$500,000 annual business limit. Accordingly it will be calculated on taxable capital for the prior year, as determined for the (now repealed) federal Large Corporation Tax and will take into account the taxable capital of all associated corporations.

This change applies to taxation years which end after May 1, 2014 and, as is customary, it will be pro-rated for taxation years that straddle this date.

Minimum Wage

The minimum wage will increase to \$11.00 per hour on June 1, 2014 and will be indexed to Ontario inflation from October 2015.

Registration of Road Building Machines

Under the *Fuel Tax Act*, tax-exempt diesel fuel may be purchased for use in unregistered vehicles used in construction. The Budget proposes that by 2016 such vehicles that use public roadways will be required to be registered and, consequently, fuel for such vehicles will be subject to the normal excise tax – currently 14.3 cents per litre. The Budget papers mention mobile cranes, concrete pumpers and hydrovacs as examples of vehicles that will be affected. Consultations with the Department of Transportation are promised to review how such vehicles are to be registered.

Fuel Tax on Aviation Fuel

Aviation fuel is currently subject to an excise tax of 2.7 cents per litre under the *Gasoline Tax Act*. It is proposed to increase this by 1.0 cent per litre in 2014 and by a similar amount in each of the next three calendar years, so that in 2017 the tax will be 6.7 cents per litre. The 2014 change will apply from the date the amendments to the Act receive Royal Assent, and measures will be introduced to require an accounting for inventories of such fuel on hand at that date.

Relief is promised to users of such fuel who service remote communities, after consultations with the Department of Transportation.

Tax Credit to Farmers for Donations

Regulations are to be introduced governing the non-refundable 25% tax credit available to farmers who donate food to community food programs. This credit was included in the *2013 Local Food Act* and applies to gifts made after 2013.

Other Measures

Tobacco Tax

Effective May 2, 2014 the tax on a cigarette or a gram of tobacco increases from 12.350 cents to 13.975 cents. There is no change to the tax on cigars. Wholesalers of such products are required to take an inventory of such goods on hand at the end of May 1, 2014 and remit the additional tax.

Administration

The Budget acknowledges several continuing concerns in maintaining a sound tax base. Of particular concern are the underground economy, corporate tax avoidance and trading in contraband tobacco.

Legislation will be introduced requiring Ontario corporations to disclose aggressive tax plans to the Minister of National Revenue, in the same manner that is now called for under the federal law.

In addition, a specific anti-avoidance rule will be introduced in the *Land Transfer Tax Act*, to take effect from May 1, 2014.

Paralleling Federal Changes

As is required under the Canada-Ontario tax collection agreement, Ontario will parallel the changes to the federal *Income Tax Act* included in the 2014 federal Budget: medical expenses, farmers and fishers, amateur athletic trusts, donations made through a will, non-resident trusts, pension transfer limits, tax on split income, donations of ecologically sensitive land, clean energy generation equipment, taxation of insurance swap transactions, and the application of HST to health services.

Other Matters under Study

- **Scientific Research & Experimental Development (SR&ED)** – as was announced in the 2013 Economic Outlook, Ontario will continue to review the SR&ED program with a view to providing incentives to incremental research activities.
- **Training Credits** – both the Apprenticeship Training Tax Credit and the Co-operative Education Tax Credit are currently refundable. It is suggested that for large businesses these credits may be non-refundable, so that they can be applied only against taxes otherwise payable.
- **Graduated Rate Trusts** – the federal 2014 Budget included changes to the taxation of testamentary trusts which are to take effect in 2016. Such trusts will generally be able to access graduated tax rates for only three taxation years following the death of the settlor, from which time they will be taxed as *inter vivos* trusts. Ontario is reviewing this proposed change.
- **Provincial Land Tax** – as was announced in the 2013 Economic Outlook, Ontario continues consultations on the Provincial Land Tax, which applies to land outside municipal areas in Northern Ontario. Currently, this tax is significantly lower than the property tax levied by adjacent municipalities. It is intended that a reformed regime will be implemented in 2015.
- **Hospices** – the 2011 Budget included a property tax exemption for non-profit entities providing end-of-life care. Regulatory changes are to be made to clarify the scope of the exemption.

New Programs

The Budget includes several new programs to take effect over a period of several years.

Ontario Retirement Pension Plan (ORPP)

The Budget proposes to introduce a mandatory defined benefit pension plan, to take effect in 2017, to be funded by Ontario employers and employees. While it is clear that much of the detail remains to be worked out, the Budget outlines a plan which is similar to the Canada Pension Plan (CPP) and, indeed, anticipates that the ORPP might be rolled into the CPP should future negotiations be successful.

Specific provisions in the Budget include:

- Contributions are not to exceed 3.8% of earnings (up to a maximum annual earnings threshold of \$90,000), with half to be funded by each of the employer and the employee. An

exemption will be provided for low-income earners, but the exemption threshold has not been determined. Currently, the first \$3,500 of pensionable earnings are not subject to CPP contributions;

- Benefits would be tied to contributions made, so that those who retire in the early years of the plan would receive reduced benefits;
- The Budget provides that those already covered by a “comparable” workplace plan would not be required to enroll; and
- The government will consult on how the ORPP is to apply to self-employed individuals.

Pooled Registered Pension Plans (PRPP)

PRPPs were introduced by the federal government as a mechanism for pooling retirement savings and thereby reducing administration costs. Ontario is proposing to introduce legislation which will establish PRPP's in Ontario.

Legislation is anticipated in the fall of 2014. The Budget suggests that key design features will include:

- Employers will choose whether to offer a PRPP and, if they do, whether to contribute to their employees' PRPP; and
- Where an employer has chosen to offer a PRPP, participation by employees will be automatic unless the employee chooses to opt out.

Jobs and Prosperity Fund

\$2.5 billion is earmarked for a 10-year program to attract significant business investments.

Moving Ontario Forward

The Moving Ontario Forward program will provide \$29 billion over the next 10 years for infrastructure investment. \$15 billion is to be targeted to the Greater Toronto and Hamilton Area and \$14 billion to the remainder of the province.

The Budget suggests that some of these amounts are to be funded from dedicated sources, including:

- Redirecting 7.5 cents per litre of the existing provincial gasoline tax;
- Repurposing the HST on the provincial taxes included in the cost of gasoline and road diesel fuel; and
- Allocating the increased revenues from the following measures in this budget:
 - the increase in fuel tax on aviation fuel;
 - the tax on fuel used by road-building machines; and
 - the additional taxes paid by CCPCs that are subject to the reduction of the small business deduction.

The balance of the funding is to be borrowed or, it is suggested, provided by the federal government under the Building Canada Plan.

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The preceding information is for educational purposes only. A review should be performed by a licensed Chartered Professional Accountant to assess the impact this budget has to you and your family.

N. S. RETSINAS PROFESSIONAL CORPORATION is a Public Accounting firm established in 1999. Norman S. Retsinas B.Comm CPA, CA, CFP, CPA(IL) AMP. is a licensed public accountant and Chartered Professional Accountant since 1985. After obtaining his CPA designation Norman completed both the CICA's In-Depth Income Tax Course and the CICA's In-Depth Goods & Services Tax Course, each of which are considered the most comprehensive taxation study in Canada. He is the founding and current managing partner of **N. S. RETSINAS PROFESSIONAL CORPORATION** a practice which focused on taxation since inception. With over 27 years experience in Canadian, USA and International tax matters. Norman has saved his clients millions of dollars in taxes over his career. He can be reached at 212-9050 Yonge Street Richmond Hill, Ontario CA L4C 9S6 Phone 905-771-0177 Fax 905-771-1218 website : www.saveutax.com.