

Tax Memo

2011 Ontario Budget: Tax Highlights

Contents

Introduction	1	Personal Tax Measures	2
Business Tax Measures	1	Personal income tax rates	2
Corporate income tax rates	1	Children's Activity Tax Credit.....	3
Ontario Book Publishing Tax Credit.....	2	Low-income assistance	3
Functional currency – Mining	2	Other Tax Measures	3
Research and development.....	2	Pension reform	3
Taxation of corporate groups.....	2	Improving administration	3
		Promotional wine and beer.....	4
		Technical amendments	4

Introduction

On Tuesday, March 29, 2011, Ontario's Minister of Finance, Dwight Duncan, presented the province's 2011 budget. The budget does not change personal income tax rates, the previously announced corporate income tax rate reductions or Harmonized Sales Tax rates. It does include numerous technical amendments, many of which are intended to improve the administration of the tax system, although few details are provided.

Please contact your PricewaterhouseCoopers LLP (PwC) adviser or any of the individuals listed on our website at www.pwc.com/ca/taxcontacts, for more information on how the budget will affect you or your corporation.

Business Tax Measures

Corporate income tax rates

The budget does not revise corporate income tax rates. The following table shows previously announced decreases.

Effective date ¹		General rate	M&P rate	Small business rate	Small business deduction surtax rate ²	
					General	M&P
	Before July 1, 2010	14%	12%	5.5%	4.25%	3.25%
	July 1, 2010	12%				
	July 1, 2011	11.5%	10%	4.5%	0%	
	July 1, 2012	11%				
	July 1, 2013	10%				

1. Rates are pro-rated for taxation years straddling the effective date.

2. The surtax was eliminated on July 1, 2010. It clawed back the benefit of the small business deduction when taxable income of associated corporations exceeded \$500,000 and eliminated it completely once taxable income, on an associated basis, reached \$1,500,000.

Combined corporate income tax rates

The following combined federal/Ontario rates apply to December 31 year ends:

	General ¹	M&P	Canadian-controlled private corporations			
			Active business income		Investment income	
			to \$500,000	\$500,000 to \$1,500,000		
			Non-M&P	M&P		
2010	30.99%	28.99%	16%	33.10%	30.60%	47.66%
2011	28.25%	26.5%		28.25%	26.5%	46.41%
2012	26.25%		15.5%	26.25%		45.92%
2013	25.50%	25%		25.50%	25%	45.16%
2014	25%			25%		44.67%

1. The rates do not apply to the income of credit unions, most deposit insurance corporations, mutual fund corporations, mortgage investment corporations and investment corporations.

Ontario Book Publishing Tax Credit

The Ontario Book Publishing Tax Credit is a 30% refundable tax credit available to Ontario book publishing corporations for qualifying expenditures related to publishing and promoting a book by a Canadian author. For expenditures incurred after March 29, 2011, the period for qualifying marketing expenditures will start one year before and end one year after the date of publication. This replaces a 12-month period.

Functional currency – Mining

For taxation years beginning after December 31, 2010, mine operators in Ontario that calculate their Canadian tax results using a functional currency other than the Canadian dollar under the Canadian *Income Tax Act* (the Act) can elect under the Ontario *Mining Tax Act* to file their Ontario mining tax returns in that functional currency. The election applies until the mine operator revokes its functional currency election under the Act or otherwise ceases to meet the conditions under the functional currency rules in the Act or the rules to be included in the Ontario *Mining Tax Act*.

These amendments will be of significant benefit to Ontario mine operators because they will no longer have to prepare a separate set of Canadian-dollar financial statements solely for the purpose of filing the Ontario mining tax return.

Research and development

The federal government is reviewing its support for business innovation, including both direct support of research and development (R&D) and the scientific research and experimental development (SR&ED) tax

program. Ontario will work with the federal government to improve the effectiveness of federal R&D tax support by strengthening administration, enhancing collaboration between the business and education sectors, and making the system fairer for small businesses that perform R&D.

Taxation of corporate groups

In November 2010, the federal government released a consultation paper on whether a formal system for the taxation of corporate groups should be implemented in Canada. See our *Tax Memo* "Taxation of Corporate Groups—Consultation Paper Released" at www.pwc.com/ca/taxmemo.

Ontario supports this initiative provided it increases the competitiveness of Canada's corporate tax system and ensures that the provinces receive the revenues to which they are entitled.

Personal Tax Measures

Personal income tax rates

Top 2011 personal tax rates

The budget does not change personal tax rates. Top combined 2011 personal tax rates follow.

Taxable income above \$128,800 (\$150,000 in Nova Scotia)	Ordinary income & interest	Capital gains	Canadian dividends	
			Eligible	Non-eligible
Federal only	29.00%	14.50%	17.72%	19.58%
Alberta	39.00%	19.50%	17.72%	27.71%
British Columbia	43.70%	21.85%	23.91%	33.71%
Manitoba	46.40%	23.20%	26.74%	39.15%
New Brunswick	43.30%	21.65%	22.03%	30.83%
Newfoundland and Labrador	42.30%	21.15%	20.96%	29.96%
Non-resident ¹	42.92%	21.46%	26.22%	28.98%
Northwest Territories	43.05%	21.53%	21.31%	29.65%
Nova Scotia ²	50.00%	25.00%	35.64%	36.21%
Nunavut	40.50%	20.25%	25.72%	28.96%
Ontario	46.41%	23.20%	28.19%	32.57%
Prince Edward Island	47.37%	23.69%	27.33%	41.17%
Quebec	48.22%	24.11%	31.85%	36.35%
Saskatchewan	44.00%	22.00%	23.36%	32.08%
Yukon	42.40%	21.20%	14.28% ³	30.41%

1. Non-resident rates for interest and dividends apply only in limited circumstances.
2. For Nova Scotia, the information shown assumes that the province will not balance its 2011 fiscal year budget.
3. For the Yukon, the rate is 17.72% if the taxpayer has no other income.

The table below shows the combined federal and Ontario income tax payable at various income levels and the additional tax due to the health premium.

		Combined tax ¹ (excluding the Health Premium)		Addition due to Health Premium	
		2010	2011	2010	2011
		Taxable income	\$500,000	\$212,483	\$212,177
	\$250,000	\$96,459	\$96,153		
	\$150,000	\$50,049	\$49,743		
	\$100,000	\$27,655	\$27,402	\$750	
	\$50,000	\$9,177	\$9,079	\$600	
	\$30,000	\$4,006	\$3,976	\$300	

1. The amounts assume that all income is either interest or ordinary income (such as salary) and only the basic tax credit is claimed.

Dividend tax rates

As a result of previously announced changes, top personal tax rates on dividends will increase as follows:

	Canadian dividends	
	Eligible	Non-eligible
2010	26.57%	32.57%
2011¹	28.19%	
2012¹	29.54%	

1. Assumes top federal/Ontario marginal income tax rate remains 46.41%.

Children's Activity Tax Credit

The budget provides a reminder that, commencing 2010, the Children's Activity Tax Credit allows parents to claim a refundable tax credit of up to \$50 for each child under 16 who is enrolled in a physical activity or other qualifying program. An additional \$50 credit is available for children under 18 who qualify for the disability tax credit.

Low-income assistance

Two measures will assist individuals with low incomes:

- Starting July 1, 2012, the Ontario Sales Tax Credit, the Ontario Energy and Property Tax Credit and the Northern Ontario Energy Credit will be combined and paid monthly. The combined payment will be referred to as the Ontario Trillium Benefit.
- The Ontario Child Care Supplement for Working Families (OCCS) and Ontario Child Benefit (OCB) will be combined and paid per child. If a family's OCCS entitlement with respect to a child exceeds its OCB for that child, the family will receive the extra OCCS payment.

Other Tax Measures

Pension reform

Ontario will continue to work with the federal, provincial and territorial governments to expand coverage, promote innovation and enhance retirement savings opportunities. As stated in its October 2010 discussion paper, Ontario is committed to strengthen the retirement system with:

- a modest, phased-in and fully funded expansion to the Canada Pension Plan; and
- the creation of innovative pension options, such as Pooled Registered Pension Plans.

The budget confirms the province's intention to:

- review the administration of unlocking locked-in accounts for those facing financial hardship;
- provide a permanent solvency funding exemption for certain jointly sponsored and multi-employer pension plans;
- implement proposed regulations for pension division on marriage breakdown;
- sign an agreement with other Canadian jurisdictions for the regulation of multi-jurisdictional pension plans; and
- mitigate risk and enhance the sustainability of the Pension Benefits Guarantee Fund.

Improving administration

The budget announced the following measures to improve the administration of the tax system:

- Tax Collection Agreement (TCA) – During its review of the TCA in 2011, Ontario will work with the federal government to ensure consistency with current needs, best practices, new technology and changes in the federal/provincial partnership.
- Estate Administration Tax – To enhance compliance, the administration of this tax will be integrated with audit and verification functions at the Ministry of Revenue, starting January 1, 2013.
- Garnishment – Ontario will continue to ensure that debts to family dependants and to the Crown are collected efficiently and effectively.

- *Retail Sales Tax Act (RSTA)* – The Minister will be allowed to withhold issuing clearance certificates required for sales under the *Bulk Sales Act*, until tax debts are paid or secured under specified statutes (e.g., *Gasoline Tax Act*, *Fuel Tax Act*, *Tobacco Tax Act*). This amendment to the RSTA will apply to bulk sales completed after June 30, 2011, except for those under written agreements entered into before March 30, 2011.
- Amendments to various provincial tax statutes will:
 - allow the province to recover reasonable third-party costs incurred in the course of collections;
 - extend the garnishment period for monies to be lent or advanced from 90 days to 365 days;
 - standardize provisions concerning director liability and issuing warrants;
 - set out deeming rules for the receipt of notices of demand and requirement sent by registered mail; and
 - allow an appeal to be dismissed and a notice of appeal to be struck down in certain instances.

Promotional wine and beer

Retroactive to July 1, 2010, exemption from beer and wine taxes will be provided for up to 10,000 litres of wine, wine coolers or beer distributed annually without charge by Ontario manufacturers. The exemption will be pro-rated based on the manufacturers' sales year. Beer distributed without charge will be ineligible for the small beer manufacturers' tax credit.

Technical amendments

Ontario will amend its provincial statutes to:

- improve effectiveness and enforcement;
- maintain integrity and equity of its tax and revenue collection system; and
- enhance legislative clarity and flexibility to preserve policy intent.

2011 Budgets: PwC will keep you up to date on tax changes in Canada's budgets. Go to www.pwc.com/ca/budget.

This publication does not constitute legal, accounting or other professional advice. It is intended only to inform readers of developments as of the date of publication and is neither a definitive analysis of the law nor a substitute for professional advice. Readers should discuss with professional advisers how the information may apply to their specific situations. Unless prior written permission is granted by PricewaterhouseCoopers LLP, this publication may be displayed or printed only if for personal non-commercial use and unchanged (with all copyright and other proprietary notices retained). Unauthorized reproduction is expressly prohibited.

© 2011 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.