

ONTARIO BUDGET 2009: A SINGLE SALES TAX AND REDUCED PERSONAL TAXES

Ontario government announced today that it would become the 5th province to join in a single sales tax system and move to a Value-Added Tax Structure. Provincial estimates put the savings on the “cost of compliance” for Ontario business to be \$500 million per year, marking a most significant move for businesses and consumers alike. In addition the government moved to reduce personal income taxes for low-income earners as well as corporate taxes, in its response to stimulate the economy. Details follow:

THE SINGLE SALES TAX (SST)

Effective July 1, 2010, Ontario will move to a Single Sales Tax of 13%, comprised of 5% Federal and 8% Ontario components. This change will allow Ontario businesses to claim Input Tax Credits on purchases made in the course of doing business, resulting in lower costs and lower pricing as the cost savings are passed to the consumer.

Further, the budget states that, in order to simplify administration, the single sales tax will generally use the same rules and tax base as the federal GST. This means that businesses selling taxable or zero-rated goods and services would deduct the input credits from collected sales tax and remit the difference to Canada Revenue Agency who will administer the **Single Sales Tax (SST)** on behalf of Canada and Ontario.

Additionally, the “cost of enforcement” currently incurred by the Ontario government will become the responsibility of Canada Revenue Agency, resulting in costs savings at the provincial level. Further, the Federal Government will provide Ontario with \$4.3 billion in cash transfers to promote economic growth and support the implementation of the new value-added tax system.

Additional provisions resulting from this announcement include the following:

Ontario Sales Tax Transition Benefit will be provided to families and individuals in Ontario. A family with income less than \$160,000 will receive a total of \$1,000 from June 2010 to June 2011. The credit begins to phase out at \$161,001 and is eliminated at \$166,600. Individuals 18 and over will receive a credit of \$300 with incomes below \$80,000 and will be fully phased out at \$82,000.

Small Business Transition. Ontario businesses currently collecting RST on behalf of the province receive compensation of up to \$1,500 per year. Under the new system this compensation is removed. In order to assist with costs associated with the transition, Ontario business with less than two million in annual sales will receive a Small Business

Transition Credit based on their taxable sales for their first full fiscal quarter commencing after June 30, 2010.

Taxable Revenues – Fiscal Quarter	Transition Credit
Up to and including \$15,000	\$300
\$15,001 up to and including \$50,000	2% of taxable revenue in the quarter
\$50,000 up to and including \$500,000	\$1,000

Small Supplier Threshold. The SST will mirror the current GST requirements where, if sales are less than \$30,000 in the prior year, registration is not required. The business would neither collect sales tax nor claim input tax credits unless they choose to register.

Exemptions. Ontario will offer targeted point-of-sale exemptions for the provincial portion of the SST on the following items:

- Books
- Children’s clothing and footwear
- Children’s car seats and car booster seats
- Diapers
- Feminine hygiene products

New homes buyers will also receive a rebate of 75% of the provincial portion of the SST (6% of the purchase price) on new homes up to \$400,000 and a pro-rated rebate on a purchase price from \$400,001 to \$500,000. New homes exceeding \$500,000 will not qualify for the rebate. Resale homes would not be subject to the single sales tax.

Ontario’s Public Service Bodies and Qualifying Charities and Non-Profit Organizations will also receive rebates of the SST based on the provincial portion of the SST.

Restricted Input Tax Credits. Taking a page from the Quebec HST system, large businesses with sales in excess of \$10 million, along with financial institutions, will have restrictions on the ITC’s they can claim during the first five years. ITC’s would then be phased on during years 6, 7 and 8 to allow for full claims of ITC’s.

Temporary ITC’s Restrictions for Large Businesses:

- Energy, except where purchased by farms or used to produce goods for sale
- Telecommunication services other than internet access or toll-free numbers
- Road vehicles weighing less than 3,000 kilograms (including parts and certain services) and fuel to power those vehicles
- Food, beverages and entertainment

Tourism. Ontario currently has an RST rate of 5% on transient accommodations. This rate will increase to 8% under the SST with the additional funds collected being allocated to destination marketing in Ontario’s tourism regions.

Alcohol. RST on alcoholic beverages will reduce to an 8% provincial component under the SST from the current levels of 10% through licensed establishments and 12% through retail stores.

SST Taxable / GST Exempt. Currently RST is charged on insurance premiums, except automobile insurance, while GST is not. The budget proposes to retain the 8% SST portion on insurance premiums.

Private Transfers of Used Vehicles. SST will apply to the private transfers of ownership on used motor vehicles.

PERSONAL TAX CHANGES

Personal Income Tax Rates. Effective January 1, 2010 the personal income tax rate on the first \$36,848 of taxable income will decrease from the current 6.05% to 5.05%. Consequently, the threshold for Ontario Surtax thresholds will decrease.

Surtax	2009	2010
20% surtax	Basic Ontario Tax > \$4,257	Basic Ontario Tax > \$3,978
30% surtax	Basic Ontario Tax > \$5,370	Basic Ontario Tax > \$5,091

Alternative Minimum Tax calculations and thresholds will also be affected.

Ontario Dividend Tax Credit. The budget proposes to reduce the dividend tax credit effective January 1, 2010 to accommodate the reduction in the base tax bracket.

Ontario Senior Homeowners’ Property Tax Grant. Ontario Seniors will benefit as the budget doubles the **Ontario Senior Homeowners’ Property Tax Grant** from \$250 in 2009 to \$500 for 2010.

Ontario Sales Tax Credit. The current Ontario Sales Tax Credit will change and be paid in advance as opposed to the current system. The credit will also increase to \$260 from \$100 for adults and \$50 for children. The credit remains income tested and begins to phase out at \$20,000 for a single person and \$25,000 for a couple.

Tax Free Savings Account. The budget also proposes changes to the Succession Law Reform Act to allow for a beneficiary designation for TFSA savings. This legislation will enable beneficiaries to receive proceeds the same way as RRSPs.

CORPORATE TAX CHANGES

Corporate Income Tax Rates. Effective July 1, 2010 the budget proposes reducing corporate tax rates for all sectors:

Ontario's Proposed Corporate Income Tax Rate Cut Plan

Date	Rates (Per Cent)			
	General	M&P ¹	Small Business ²	Small Business Deduction Surtax ³
Current	14	12	5.5	4.25
July 1, 2010	12	10	4.5	0
July 1, 2011	11.5	10	4.5	0
July 1, 2012	11	10	4.5	0
July 1, 2013	10	10	4.5	0

- ¹ Income from manufacturing and processing, mining, logging, farming or fishing.
- ² Applies to Canadian-controlled private corporations (CCPCs) on the first \$500,000 of active business income.
- ³ Applies to CCPCs on taxable income between \$500,000 and \$1.5 million.
- *Note:* The proposed tax rate reductions would be pro-rated for taxation years straddling the effective dates.

The elimination of the Small Business Deduction Surtax results in all Canadian Controlled Private Corporations paying only 4.5% Ontario tax on the first \$500,000 of taxable income.

The reduction in the Corporate Income Tax rate will also result in a corresponding reduction in the Corporate Minimum Tax. Also proposed is a reduction in the Corporate Minimum Tax rate to 2.7% and a corporation with less than \$50 million in assets or \$100 million in gross revenues will not pay any Corporate Income Tax in Ontario.

Capital Tax. The budget will accelerate and eliminate Capital Tax effective July 1, 2010.

CHANGES RELATING TO FEDERAL BUDGET 2009

The Ontario budget will mirror changes announced January 27, 2009 as follows:

- Ontario Innovation Tax Credit (Scientific Research and Development) phase-out thresholds increased by \$100,000 to \$500,000 and fully phased out at \$800,000.
- Accelerated CCA for computers and software acquired after January 27, 2009 and before February 2011 at 100% with no half-year rule application.
- Mirroring of the Federal CCA legislation for Manufacturing and Processing Equipment
- Mirroring of the Federal budget announcement increasing the Home Buyers' Plan withdrawal limit to \$25,000
- Mirroring the Federal budget announcement to allow losses incurred in RIF and RRSP holdings of a deceased person to be carried back and applied against income inclusion on the deceased annuitant's final return.

TARGETED TAX CREDITS

Ontario Budget 2009 also proposes to enhance a number of Ontario targeted tax credits.

- Ontario Interactive Digital media Tax Credit
- Ontario Computer Animation and Special Effects Tax Credit
- Ontario Book Publishing Tax Credit
- Co-operative Education Tax Credit
- Apprenticeship Training Tax Credit

The following temporary targeted tax credits will be made permanent.

- Ontario Film and Television Tax Credit
- Ontario Production Services Tax Credit