

ANNEX III

TRANSPARENCY IN TAXATION

INTRODUCTION

The enactment of the *Fiscal Transparency and Accountability Act, 2004*, represents a major commitment of the Ontario Government to be more open and accountable. Under Section 6 of the Act, the Minister of Finance is required to release a mid-year review of the fiscal plan on or before November 15 of each year, which must include information about the estimated cost of expenditures made through the tax system.

Tax expenditure reporting is an important element of improved fiscal transparency and accountability. This report is the first such annual compilation of the estimated cost of Ontario tax provisions under this legislation.

Many other jurisdictions have published tax expenditure reports including several other Canadian provinces, the federal government, a number of Organisation for Economic Co-operation and Development member countries, as well as U.S. states.

STRUCTURE OF REPORT

This report provides estimates with respect to provisions in the following taxes:

- Personal Income Tax
- Corporate Tax
- Sales and Commodity Tax
- Education Property Tax
- Employer Health Tax
- Estate Administration Tax
- Gross Revenue Charge

Estimates of the revenue foregone in 2005 are presented in tables followed by a brief description of each tax provision. These descriptions are intended to provide a basic understanding of the provision and do not replace the relevant legislation or regulations.

SCOPE

There is no universally agreed-upon definition of a “tax expenditure.” This report takes a broad approach by listing estimates of revenue foregone under the current tax system for a wide range of tax provisions.

Personal and corporate income tax expenditures identified in this report include tax expenditures shared with the federal government and Ontario-only tax expenditures.

Under a tax collection agreement between Ontario and Canada, the federal government determines the personal income tax base. Ontario has limited policy control over the individual components of taxable income and the associated tax expenditures related to the federally defined tax base.

Ontario currently collects and administers its own corporate income tax.¹ However, to reduce tax complexity and compliance costs, Ontario generally parallels federal corporate income tax measures. Ontario-only tax expenditures are measures that fall solely within Ontario’s jurisdiction.

METHOD

The estimates in this report have been developed using the latest available taxation or economic data, forecast to the 2005 calendar year. The data used to estimate the value of the tax provisions come from a variety of sources. Revisions to the underlying data, as well as improvements to the estimation method, may result in changes to the value of a given tax expenditure in future publications. In addition, some tax measures are particularly sensitive to economic conditions or other variables and could fluctuate significantly from year to year.

The amount of revenue foregone was estimated by recalculating revenues assuming the elimination of the measure in question and applying appropriate projections to estimate the 2005 calendar-year impact. The difference between actual revenues and the recalculated figure provides the estimate of the value of the tax provision. Specific data sources and other information are noted at the end of each table.

¹ Ontario is currently negotiating with the federal government an agreement under which the federal government would collect and administer Ontario’s corporate income tax.

The estimates presented in this report are not intended to represent the potential revenue gain for Ontario if the tax provisions were not in place. Each estimate has been determined separately and in isolation of other factors, such as the economic impact of any change; behavioural responses; the interaction among various tax provisions; or any modifications in policy that might reasonably accompany the change. In addition, the estimates cannot be added together to determine the total cost of a particular group of tax expenditures or of all measures combined, given the inter-related nature of the tax system.

Tax expenditure estimates that are less than \$1 million are denoted by the letter “s” (small). This report also includes tax provisions for which estimates are not available. Inclusion of such items is similar to the approach taken in other jurisdictions and is warranted given that this report is designed to ensure greater accountability and transparency.

Future annual reports will continue to refine Ontario’s tax expenditure estimates.

PERSONAL INCOME TAX

Table 1 provides estimates of tax provisions relating to the Ontario Personal Income Tax system. Business deductions listed here are for unincorporated businesses.

TABLE 1: PERSONAL INCOME TAX¹

Tax Provisions	2005 Estimates ² (\$ millions)
Ontario Non-refundable Tax Credits	
Adoption Expense Credit ³	1
Age Credit	230
Amounts Transferred from Spouse	40
Basic Personal Credit	3,935
Canada Pension Plan (CPP) and Quebec Pension Plan (QPP) Contributions Credit	445
Caregiver Credit	10
Charitable Donations Credit	465
Disability Credit	75
Eligible Dependant Credit	95
Employment Insurance (EI) Premiums Credit	190
Infirm Dependant Credit	1
Medical Expense Credit	105
Ontario Overseas Employment Tax Credit	6
Pension Income Credit	85
Spouse or Common-law Partner Credit	215
Student Loan Interest Credit	10
Tuition Fee and Education Credits	215
ONTARIO TAX REDUCTION (OTR)	
OTR — Basic Reduction	130
OTR — Reduction for Dependent Children Under 19	180
OTR — Reduction for Disabled or Infirm Dependents	7
OTR — Total ⁴	255
Ontario Tax Credits⁵	
Ontario Focused Flow-through Share Tax Credit	2
Ontario Political Contributions Tax Credit	5
ONTARIO PROPERTY AND SALES TAX CREDITS (OPSTCs)	
OPSTCs — Non-seniors	460
OPSTCs — Seniors ⁶	515
OPSTCs — Total ⁶	975

TABLE 1: PERSONAL INCOME TAX¹

Tax Provisions	2005 Estimates ² (\$ millions)
ONTARIO LABOUR SPONSORED INVESTMENT FUND AND EMPLOYEE OWNERSHIP TAX CREDITS	
Employee Ownership (EO) Tax Credit	s
Labour Sponsored Investment Fund (LSIF) Tax Credit	30
Research-oriented Investment Fund (ROIF) Tax Credit	2
Exemptions, Deductions and Deferrals Shared with the Federal Government	
BUSINESS	
<i>Items for Which an Estimate Is Not Available</i>	
Assistance for Artists and Deduction for Canadian Art Purchased by Unincorporated Businesses	
Assistance for Prospectors and Grubstakers	
Deduction of Accelerated Capital Cost Allowance	
Deferral Through Use of Billed-basis Accounting by Professionals	
EMPLOYMENT	
Deduction for Clergy Residence	15
Deduction of Home Relocation Loans	s
Deduction of Other Employment Expenses	240
Deduction of Union and Professional Dues	115
Employee Stock Options	130
Moving Expense Deduction	15
Northern Residents' Deductions	1
<i>Items for Which an Estimate Is Not Available</i>	
Deduction for Apprentice Vehicle Mechanics' Tools	
Deduction for Artists and Musicians	
Deduction for Military and Police Deployed to High-risk International Missions	
Deduction for Tuition Assistance for Adult Basic Education	
Deferral of Salary Through Leave of Absence/Sabbatical Plans	
Employee Benefit Plans	
Non-taxation of Allowances to Public Officials	
Non-taxation of Business-paid Health and Dental Benefits	
Non-taxation of Certain Non-monetary Employment Benefits	
Special Tax Computations for Certain Retroactive Lump-sum Payments	
FARMING AND FISHING	
<i>Items for Which an Estimate Is Not Available</i>	
Cash-basis and Flexibility in Inventory Accounting	
Deduction of Farm Losses for Part-time Farmers	

TABLE 1: PERSONAL INCOME TAX¹

Tax Provisions	2005 Estimates² (\$ millions)
Deferral of Income for Farmers	
Net Income Stabilization Account for Farmers	
INVESTMENT	
\$500,000 Lifetime Capital Gains Exemption for Farm Property and Small Business Shares	130
Deduction of Allowable Business Investment Losses	10
Deduction of Carrying Charges Incurred to Earn Income	250
Deduction of Resource-related Expenditures	40
Partial Inclusion of Capital Gains	305
<i>Items for Which an Estimate Is Not Available</i>	
Capital Gains Exemptions — \$1,000 on Personal-use Property and \$200 on Foreign Exchange Transactions	
Deduction of Limited Partnership Losses	
Deferral of Capital Gains Through Five-year Reserve	
Deferral of Capital Gains Through Rollovers	
Deferral of Capital Gains Through 10-year Reserve for Farm Property and Small Business Shares	
Deferral of Capital Gains Through Transfers to a Spouse or Spousal Trust	
Non-taxation of Capital Gains on Principal Residences	
Reduced Inclusion Rate for Capital Gains Arising from Certain Donations	
Taxation of Capital Gains Upon Realization	
NON-TAXABLE INCOME	
Guaranteed Income Supplement and Allowance Benefits	25
Social Assistance Benefits	20
Workers' Compensation Benefits	155
<i>Items for Which an Estimate Is Not Available</i>	
Certain Federal Government Pensions and Allowances	
Damages With Respect to Personal Injury or Death	
Death Benefits of Up to \$10,000	
Employer-paid CPP/QPP Contributions and EI Premiums	
Gifts and Bequests	
Income of Indians on Reserves	
Income from the Office of the Governor General and Allowances for Diplomats and Other Government Employees Posted Abroad	
Investment Income on Life Insurance Policies	
Lottery and Gambling Winnings	
Strike Pay	

TABLE 1: PERSONAL INCOME TAX¹

Tax Provisions	2005 Estimates² (\$ millions)
SPECIAL CIRCUMSTANCES	
Child Care Expense Deduction	135
Treatment of Alimony, Maintenance and Child Support Payments	55
<i>Items for Which an Estimate Is Not Available</i>	
Deduction Related to Vows of Perpetual Poverty	
Disability Supports Deduction	
Partial Exemption of Scholarship, Fellowship and Bursary Income	
Tax-free Amount for Emergency Service Volunteers	
TAX-DEFERRED SAVINGS	
Registered Pension Plans (RPPs) — Deduction for Contributions	505
Registered Retirement Savings Plan (RRSPs) — Deduction for Contributions	1,755
<i>Items for Which an Estimate Is Not Available</i>	
Deferred Profit-sharing Plans	
Registered Education Savings Plans (RESPs)	
RPPs and RRSPs — Non-taxation of Investment Income	

Endnotes:

1. Estimates do not include the impact of revenue foregone from personal income tax provisions for trusts, which are taxed as individuals under the *Income Tax Act*.
2. Estimates are based on 2002 tax-filer data forecast to represent the 2005 taxation year, unless otherwise noted. The tax-filer data include only those returns assessed within one year of the taxation year.
3. Estimate is based on federal estimates.
4. This total is less than the sum of the OTR components due to their interaction.
5. Estimates are based on preliminary 2004 tax assessment information unless otherwise noted, adjusted to reflect the assessments for the balance of the processing year and forecast to represent the 2005 taxation year.
6. Estimate is based on (5) above and the enrichment proposed in the 2005 Ontario Budget.

PERSONAL INCOME TAX — DESCRIPTION OF TAX PROVISIONS

Ontario Non-refundable Tax Credits

Adoption Expense Credit — The 2005 Ontario Budget proposed a non-refundable tax credit equal to 6.05% of eligible adoption expenses of up to \$10,000.

Age Credit — Tax-filers aged 65 and over are entitled to a claim of 6.05% of \$4,002. The base amount is reduced by the lesser of \$4,002 and 15% of the individual's net income in excess of \$29,793. Any unused portion may be transferred to a supporting spouse or common-law partner.

Amounts Transferred from Spouse — The unused portions of the age credit, pension income credit, disability credit, and education and tuition fee amounts may be transferred to a supporting spouse or common-law partner.

Basic Personal Credit — Tax-filers are entitled to claim a basic personal credit of 6.05% of \$8,196.

Canada Pension Plan (CPP) and Quebec Pension Plan (QPP) Contributions Credit — Tax-filers are entitled to claim 6.05% of their CPP and QPP contributions.

Caregiver Credit — Tax-filers who reside with and are responsible for the in-home care of an infirm, dependent relative or an elderly parent/grandparent (including in-laws) can claim a credit equal to 6.05% of \$3,863 less the amount by which the dependant's net income for the year exceeds \$13,218.

Charitable Donations Credit — Tax-filers can claim 6.05% of the first \$200 of charitable donations and gifts and 11.16% of donations and gifts in excess of \$200.

Disability Credit — Tax-filers who have a severe and prolonged mental or physical impairment causing a marked restriction in basic activities of daily living may claim a credit equal to 6.05% of \$6,622. Any unused amount may be transferred to a supporting relative.

Eligible Dependant Credit — Tax-filers who qualify to claim an eligible dependant are entitled to a claim of 6.05% of \$6,960. The base amount is reduced by the amount of the eligible dependant's net income in excess of \$696 but less than \$7,656.

Employment Insurance (EI) Premiums Credit — Tax-filers are entitled to claim 6.05% of their EI premiums.

Infirm Dependant Credit — The amount that a tax-filer can claim for an infirm dependant is 6.05% of \$3,863 less the amount by which the dependant's net income exceeds \$5,492.

Medical Expense Credit — A credit for non-reimbursed medical expenses, including those incurred on behalf of a tax-filer's spouse or common-law partner or minor children, may be claimed by tax-filers. Generally, the credit is 6.05% of eligible expenses in excess of the lesser of \$1,856 and 3% of the individual's net income for the year. In addition, up to \$5,095 of qualifying medical expenses paid on behalf of other dependent relatives, which the 2005 Ontario Budget proposes to increase to \$10,000, may be claimed to the extent that they exceed the lesser of \$1,856 and 3% of the dependant's net income.

Ontario Overseas Employment Tax Credit — A tax credit is available to eligible employees working abroad for more than six months in connection with certain resource projects or construction, installation, agricultural or engineering activities.

Pension Income Credit — A 6.05% tax credit on up to \$1,133 of eligible pension income may be claimed by qualified tax-filers. Any unused portion may be transferred to a supporting spouse or common-law partner.

Spouse or Common-law Partner Credit — Tax-filers who are married or have common-law partners are entitled to a claim of 6.05% of the lesser of \$6,960 and the spouse's or common-law partner's net income deducted from \$7,656.

Student Loan Interest Credit — A 6.05% tax credit on the interest portion of student loan payments made in a year may be claimed in the year in which it is paid or in any of the subsequent five years. The credit is available with respect to payments under the Canada Student Loan Program and similar provincial programs.

Tuition Fee and Education Credits — Students may claim a credit of 6.05% of eligible tuition fees and another credit of 6.05% of \$441 (for full time) or \$132 (for part time) for each month of enrolment at a qualifying postsecondary institution. The unused portions of the tuition fee and education amounts may be transferred to a supporting spouse or common-law partner, parent or grandparent. The maximum transfer from a student for the two amounts combined is \$5,667. To the extent that students do not claim or transfer all their tuition fee and education credits in the year, the unused amounts can be carried forward indefinitely for their own use in a future year.

ONTARIO TAX REDUCTION

Ontario Tax Reduction (OTR) — This program eliminates or reduces Ontario personal income tax otherwise payable by tax-filers with low and moderate incomes. All Ontario tax-filers can claim a basic exemption plus a supplementary amount for

each dependent child aged 18 or under and each disabled or infirm dependant. An individual with Ontario tax of less than the sum of these amounts pays no Ontario tax.

Ontario Tax Credits

Ontario Focused Flow-through Share Tax Credit — To improve access to capital for mining exploration companies and stimulate mineral exploration in Ontario, individual shareholders can claim a 5% refundable credit on eligible investments.

Ontario Political Contributions Tax Credit — Contributions to registered Ontario political parties as well as to their candidates and associations are eligible for a tax credit of 75% of the first \$336, 50% of the next \$784 and 33.3% of the next \$1,428. A contribution of \$2,548 or more results in a credit of \$1,120.

Ontario Property and Sales Tax Credits (OPSTCs) — The Property Tax Credit is the lesser of occupancy cost and a basic property tax credit amount plus 10% of occupancy cost. Occupancy cost is property tax or 20% of rent paid on an individual's or couple's principal residence plus \$25 if residing in a college residence. The basic property tax credit amount is \$250 for non-senior individuals or couples and \$625 for senior individuals or couples. The Sales Tax Credit is \$100 for an individual plus \$100 for a spouse or common-law partner and \$50 for each dependent child aged 18 or under. The credits for non-seniors are jointly reduced by 2% of family net income in excess of \$4,000; the credits for seniors are jointly reduced by 4% of family net income in excess of \$22,000, which the 2005 Ontario Budget proposes to increase for senior couples. The maximum OPSTCs are \$1,000 for non-seniors and \$1,125 for seniors. The estimate includes the proposed increase to the income threshold for senior couples, which is expected to be \$22,250 for 2005.

ONTARIO LABOUR SPONSORED INVESTMENT FUND AND EMPLOYEE OWNERSHIP TAX CREDITS

Employee Ownership (EO) Tax Credit — A tax credit is available to individual employee investors based on a maximum lifetime investment of \$150,000 in the EO corporation.

Labour Sponsored Investment Fund (LSIF) Tax Credit — LSIFs are venture capital corporations designed to provide alternative sources of capital to small and medium-sized Ontario businesses. A tax credit of 15%, to a maximum of \$750, is available to eligible investors. On September 30, 2005, it was announced that the LSIF tax credit would be phased out and eliminated after 2010.

Research-oriented Investment Fund (ROIF) Tax Credit — In addition to the LSIF credit, a tax credit of 5%, to a maximum of \$250, is available to eligible investors where the LSIF qualifies as a Research-oriented Investment Fund. As with the LSIF credit, the ROIF tax credit would also be eliminated after 2010.

Exemptions, Deductions and Deferrals Shared with the Federal Government

BUSINESS

Items for Which an Estimate Is Not Available

Assistance for Artists and Deduction for Canadian Art Purchased by

Unincorporated Businesses — Canadian art acquired by businesses for display in an office may be depreciated on a 20% declining-balance basis even though Canadian art may depreciate at a much slower rate (and, in some cases, may appreciate). Artists may deduct the costs of creating a work of art in the year the costs are incurred rather than in the year the work of art is sold.

Assistance for Prospectors and Grubstakers — Where a prospector or grubstaker disposes of mining property to a corporation in exchange for shares in that corporation, the tax liability is deferred until the subsequent disposition of the shares.

Deduction of Accelerated Capital Cost Allowance — The depreciation allowable for tax purposes is called capital cost allowance. A tax deferral may be created when tax deductions in the early years of the life of an asset exceed the actual depreciation in the value of the asset. The difference is captured over time or upon subsequent disposition of the asset.

Deferral Through Use of Billed-basis Accounting by Professionals — In computing their income for tax purposes, professionals are allowed to elect either an accrual or billed-basis accounting method. Under the latter method, the costs of work in progress can be written off as incurred even though the associated revenues are not brought into income until the bill is paid or becomes receivable. This treatment gives rise to a deferral of tax.

EMPLOYMENT

Deduction for Clergy Residence — A full-time member of the clergy or a regular minister of a religious denomination may deduct housing costs from income for tax purposes. Where a member of the clergy is supplied living accommodation by his or her employer or receives housing allowances, an offsetting deduction may be claimed to the extent that this benefit is included in income.

Deduction of Home Relocation Loans — An offsetting deduction from taxable income is provided for the benefit received by an employee with respect to a home relocation loan. The amount of the deduction is the lesser of the amount included in income as a taxable benefit, and the amount of the benefit that would arise with respect to a five-year, interest-free loan of \$25,000.

Deduction of Other Employment Expenses — Employees generally cannot deduct work-related expenses. However, specific employment expenses (e.g., automobile

expenses, cost of meals and lodging for certain transport employees, legal expenses paid to collect salary) are deductible in certain circumstances in the computation of income.

Deduction of Union and Professional Dues — Annual union, professional or like dues are deductible from income.

Employee Stock Options — Provided certain conditions are met, an employee of a corporation or Canadian mutual fund is allowed to deduct from net income a portion of the stock (or mutual fund unit) option benefit included in calculating employment income. In 2005, the deductible portion of the benefit is one-half.

Moving Expense Deduction — A deduction may be made for eligible moving expenses if the tax-filer changes residences within Canada and moves at least 40 kilometres closer to a new job, business location or postsecondary institution where the individual will engage in full-time schooling. The estimates do not include non-taxable reimbursements received from employers.

Northern Residents' Deductions — To offset the relatively higher cost of living and travelling in the North, individuals living in a qualifying remote location in Canada for a continuous period of at least six months may claim certain deductions from income.

Items for Which an Estimate Is Not Available

Deduction for Apprentice Vehicle Mechanics' Tools — Registered apprentice vehicle mechanics may deduct from their apprenticeship income an amount for the cost of their tools in excess of a proportion of that income.

Deduction for Artists and Musicians — Employed musicians may claim the cost of maintenance, rental, insurance and capital cost allowance on musical instruments against employment income earned as a musician. Employed artists may deduct expenses related to their artistic endeavours, up to a limit.

Deduction for Military and Police Deployed to High-risk International Missions — Members of the Canadian Forces or a Canadian police force who serve on a high-risk international mission may claim an offsetting deduction for their income earned on the mission.

Deduction for Tuition Assistance for Adult Basic Education — Students may deduct from income tuition assistance provided under the *Employment Insurance Act*.

Deferral of Salary Through Leave of Absence/Sabbatical Plans — Employees may defer salaries through a leave of absence/sabbatical plan. Provided certain conditions are met, these amounts are not subject to tax until received.

Employee Benefit Plans — Employers may make contributions to an “employee benefit plan” on behalf of their employees. The employee is not required to include in income the contributions to the plan, or the investment income earned within the plan, until amounts are received. Employers may not deduct these contributions to the plan until the contributions are actually distributed to employees.

Non-taxation of Allowances to Public Officials — Federal Members of Parliament, Senators and some other public officials receive flat allowances for expenses incidental to their duties. These amounts are not included in income for tax purposes.

Non-taxation of Business-paid Health and Dental Benefits — Employer-paid benefits for private health and dental plans are not taxable. Self-employed individuals may deduct private health and dental insurance premiums from their business income.

Non-taxation of Certain Non-monetary Employment Benefits — Certain fringe benefits, such as subsidized meals in staff cafeterias, subsidized recreational facilities and special clothing provided to employees by their employers, are not taxable.

Special Tax Computations for Certain Retroactive Lump-sum Payments — Certain retroactive lump-sum payments totalling \$3,000 or more are eligible for a special tax calculation.

FARMING AND FISHING

Items for Which an Estimate Is Not Available

Cash-basis and Flexibility in Inventory Accounting — Individuals engaged in farming and fishing may elect to include revenues when received, rather than when earned, and deduct expenses when paid rather than when the related revenue is reported. Farmers using the cash-basis method of accounting are allowed to depart from it with respect to their inventory.

Deduction of Farm Losses for Part-time Farmers — Individuals whose major source of income is not farming are allowed to deduct farm losses up to an annual maximum against other income.

Deferral of Income for Farmers — Income received from herd reduction in a drought region or the statutory forced destruction of livestock can be deemed to be income in the following year. Cash purchase tickets for deliveries of grain before year-end only become income in the year the tickets are cashed.

Net Income Stabilization Account for Farmers — Farmers may deposit a percentage of a given year’s eligible net sales, up to a limit, to their Net Income Stabilization Account. Some deposits are matchable by the federal and provincial governments. Governments also pay a 3% interest bonus annually on deposits that

remain in the account. Governments' contributions and interest accrued in the account are not taxable until withdrawn.

INVESTMENT

\$500,000 Lifetime Capital Gains Exemption for Farm Property and Small Business Shares — A \$500,000 lifetime capital gains exemption is available for gains with respect to the disposition of qualified farm property and small business shares.

Deduction of Allowable Business Investment Losses — A portion of capital losses with respect to shares or debts of a small business corporation (allowable business investment losses) may be used to offset other income.

Deduction of Carrying Charges Incurred to Earn Income — Interest and other carrying charges, such as investment counselling fees and safety-deposit-box charges, incurred to earn business or investment income are deductible.

Deduction of Resource-related Expenditures — Individuals are entitled to deduct certain expenses associated with the exploration for, and the development of, Canadian natural resources. These expenses are deductible if the taxpayer either engages directly in these resource activities or provides financing to a resource company that in turn “flows through” the tax deductions to the taxpayer.

Partial Inclusion of Capital Gains — Fifty per cent of net realized capital gains are included in income. The amount of the tax expenditure is the additional tax that would have been collected had the full amount of the capital gains been included in income.

Items for Which an Estimate Is Not Available

Capital Gains Exemptions — \$1,000 on Personal-use Property and \$200 on Foreign Exchange Transactions — In calculating the capital gain on personal-use property, if the proceeds of disposition are less than \$1,000, no capital gain needs to be reported. The first \$200 of net capital gains on foreign exchange transactions is exempt from tax.

Deduction of Limited Partnership Losses — A limited partner is able to deduct losses against other income up to the amount of investment at risk, whereas a shareholder is normally not permitted to deduct corporate losses against personal income. Unused losses may be carried back three years or forward seven years.

Deferral of Capital Gains Through Five-year Reserve — If proceeds from a sale of capital property are not all receivable in the year of the sale, realization of a portion of the capital gain may be deferred until the year in which the proceeds are received. A minimum of 20% of the gain must be brought into income each year, creating a maximum five-year reserve period.

Deferral of Capital Gains Through Rollovers — Individuals (other than trusts) are permitted a rollover of capital gains on eligible small business investments. To the extent that the proceeds are reinvested in one or more eligible small business corporations, the liability for personal income tax on the gain is deferred until the replacement property is sold. In addition, capital gains on intergenerational transfers of farm property are deferred in certain circumstances until the property is disposed of outside the immediate family.

Deferral of Capital Gains Through 10-year Reserve for Farm Property and Small Business Shares — If proceeds from the sale of small business shares or from the sale of farm property to a child, grandchild or great-grandchild are not all receivable in the year of sale, realization of a portion of the capital gain may be deferred until the year in which the proceeds become receivable. However, a minimum of 10% of the gain must be brought into income each year, creating a maximum 10-year reserve period. For most other assets, the maximum reserve period is five years.

Deferral of Capital Gains Through Transfers to a Spouse or Spousal Trust — Individuals may transfer capital property to their spouses or spousal trusts at the adjusted cost base of the property rather than the fair market value. This provides a deferral of the capital gain until the subsequent disposition of the property or until the transferee spouse dies.

Non-taxation of Capital Gains on Principal Residences — Capital gains realized on the disposition of a tax-filer's principal residence are non-taxable.

Reduced Inclusion Rate for Capital Gains Arising from Certain Donations — The inclusion rate for gifts of securities and ecologically sensitive land is 25%, which is half the inclusion rate for capital gains. In addition, capital gains on certain objects certified as being of cultural importance to Canada are exempt from tax if donated to a designated museum or art gallery.

Taxation of Capital Gains Upon Realization — Capital gains are taxed upon the disposition of property and not on an accrual basis. This provides a tax deferral.

NON-TAXABLE INCOME

Guaranteed Income Supplement and Allowance Benefits — Although Guaranteed Income Supplement and Allowance benefits for an eligible spouse, common-law partner, widow or widower must be included in income, an offsetting deduction from net income is provided. This approach effectively exempts such benefits from taxation while ensuring that they are taken into account in determining income-tested credits.

Social Assistance Benefits — Social assistance benefits must be included in income. However, an offsetting deduction from net income is provided. This approach effectively exempts such benefits from taxation while continuing to have the amount of the benefit affect income-tested credits.

Workers' Compensation Benefits — Workers' compensation benefits must be included in income. However, an offsetting deduction from net income is provided. This approach effectively exempts such benefits from taxation while continuing to have the amount of the benefit affect income-tested credits.

Items for Which an Estimate Is Not Available

Certain Federal Government Pensions and Allowances — Pension payments, allowances and other compensation received with respect to an injury, disability or death associated with service in the Royal Canadian Mounted Police are non-taxable. In addition, veterans' allowances, veterans' disability pensions and support for dependants, civilian war pensions and allowances, and other service pensions are not included in income for tax purposes.

Damages With Respect to Personal Injury or Death — Amounts received with respect to damages for personal injury or death, and awards paid pursuant to the authority of criminal-injury compensation laws are not taxable. In addition, investment income earned in personal injury awards is excluded from income until the end of the year in which the person reaches the age of 21.

Death Benefits of Up to \$10,000 — Up to \$10,000 of death benefits paid by an employer to the spouse of a deceased employee are non-taxable.

Employer-paid CPP/QPP Contributions and EI Premiums — Employer-paid CPP/QPP contributions and EI premiums are not included in the calculation of income for employees.

Gifts and Bequests — Gifts and bequests are not included in income of the recipient for tax purposes.

Income of Indians on Reserves — The income of status Indians is exempt from tax if situated on a reserve.

Income from the Office of the Governor General and Allowances for Diplomats and Other Government Employees Posted Abroad — The income of the Governor General is exempt from personal income taxation. Diplomats and other government employees posted abroad receive a non-taxable income supplement to cover the additional costs associated with living outside Canada.

Investment Income on Life Insurance Policies — The investment income earned on some life insurance policies is not taxed as income to the policyholder. Instead, for reasons of administrative convenience, insurance companies are subject to tax on such earnings.

Lottery and Gambling Winnings — Lottery and gambling winnings are excluded from income for tax purposes.

Strike Pay — Strike pay is non-taxable.

SPECIAL CIRCUMSTANCES

Child Care Expense Deduction — A claim may be made for expenses incurred with respect to an eligible child to allow an individual to be employed for which an income is earned, to study, to take an occupational training course for which an allowance under the *National Training Act* is received, or to conduct research for which a grant is received. The spouse with the lower income must generally claim the deduction.

Treatment of Alimony, Maintenance and Child Support Payments — As of May 1, 1997, child support paid pursuant to a written agreement or court order made on or after that day, is not deductible to the payer nor included in the income of the recipient. Child support paid pursuant to a court order or written agreement made before that date continues to be deductible to the payer and included in the income of the recipient, unless the agreement is varied or both parties elect to have the new rules apply. The tax changes do not apply to spousal support. Spousal support payments remain deductible by the payer and are included in the income of the recipient.

Items for Which an Estimate Is Not Available

Deduction Related to Vows of Perpetual Poverty — Where a person has taken a vow of perpetual poverty as a member of a religious order, that person may deduct donations to the religious order up to his or her total employment and pension income (but not investment or other income) in lieu of the charitable donations credit.

Disability Supports Deduction — Individuals may deduct expenses from income with respect to disability supports if they are incurred for education or employment purposes.

Partial Exemption of Scholarship, Fellowship and Bursary Income — For students eligible for the education credit, the first \$3,000 of scholarship, fellowship and bursary income is exempt from tax.

Tax-free Amount for Emergency Service Volunteers — The first \$1,000 of amounts received by a tax-filer in connection with volunteer duties as an ambulance technician, firefighter or other emergency worker is exempt from tax.

TAX-DEFERRED SAVINGS

Registered Pension Plans (RPPs) and Registered Retirement Savings Plans (RRSPs) – Deduction for Contributions — Contributions by individuals to registered plans are deductible, subject to certain limits.

Items for Which an Estimate Is Not Available

Deferred Profit-sharing Plans — Employer contributions to deferred profit-sharing plans on behalf of their employees are tax-deductible. Withdrawals from the plans are taxable in the hands of the employees.

Registered Education Savings Plans (RESPs) — Individuals may contribute to registered education savings plans on behalf of designated children. Income accrued within the plans is not taxed until withdrawn for the postsecondary education of the named beneficiaries.

RPPs and RRSPs — Non-taxation of Investment Income — Investment income in registered plans is not taxed as it accrues. Individuals benefit from a deferral of tax on investment income until funds are withdrawn from these plans.

CORPORATE TAX

The estimated value of tax provisions in the Ontario Corporate Income Tax, Capital Tax and Mining Tax systems are presented in Table 2.

TABLE 2: CORPORATE TAX

Tax Provisions	2005 Estimates ¹ (\$ millions)
Corporate Income Tax	
Ontario Refundable Tax Credits	
Apprenticeship Training Tax Credit ^{2,3}	95
Co-operative Education Tax Credit ^{2,3}	5
Ontario Book Publishing Tax Credit ⁴	2
Ontario Business Research Institute Tax Credit	5
Ontario Computer Animation and Special Effects Tax Credit ⁴	4
Ontario Film and Television Tax Credit ⁴	80
Ontario Innovation Tax Credit	160
Ontario Interactive Digital Media Tax Credit ⁴	2
Ontario Production Services Tax Credit ⁴	40
Ontario Sound Recording Tax Credit ⁴	1
Ontario Deductions and Exemptions	
Additional Deduction for Credit Unions	5
Assets Used to Generate Clean Energy	s
Manufacturing and Processing (M&P) and Resource Sector Credit	220
Non-taxation of the Federal Investment Tax Credit ⁵	180
Ontario Current Cost Adjustment	2
Ontario Depletion Allowance	s
Ontario New Technology Tax Incentive	s
Ontario Political Contributions	2
Ontario Resource Allowance ⁶	50
Ontario School Bus Safety Tax Incentive ²	3
Small Business Deduction ⁷	825
Exemptions, Deductions and Deferrals Shared with the Federal Government	
Allowable Business Investment Losses ^{8,9}	3
Deductibility of Charitable Donations ⁸	70

TABLE 2: CORPORATE TAX

Tax Provisions	2005 Estimates ¹ (\$ millions)
Deductibility of Gifts to the Crown ⁸	s
Deductibility of Gifts of Cultural Property and Ecologically Sensitive Land ⁸	3
Deferral of Income for Farmers ⁸	s
Holdback on Progress Payments to Contractors ⁸	11
Non-taxation of Non-profit Organizations ⁸	70
Partial Inclusion of Capital Gains ⁸	700
<i>Items for Which an Estimate Is Not Available</i>	
Accelerated Writeoff of Capital Assets and Resource-related Expenditures	
Cash-basis Accounting and Flexibility in Inventory Accounting	
Deductibility of Countervailing and Anti-dumping Duties	
Deferral Through Capital Gains Rollovers	
Deferral Through Use of Billed-basis Accounting by Professionals	
Expensing of Advertising Costs	
Non-taxation of Provincial, Municipal and Federal Crown Corporations	
Non-taxation of Registered Charities	
Tax Exemption on Income of Foreign Affiliates of Canadian Corporations	
Taxation of Capital Gains upon Realization	
Capital Tax¹⁰	
Capital Tax Deduction	255
Deferred Mining Exploration and Development Expenses	4
Deferred Ontario New Technology Tax Incentive and Scientific Research and Experimental Development Costs	s
Exemption for Assets Used to Generate Clean Energy	s
Exemption for Family Farm Corporations, Family Fishing Corporations, Credit Unions and Other Specified Entities	s
Small Business Investment Tax Credit for Financial Institutions	8
<i>Items for Which an Estimate Is Not Available</i>	
Renounced Mining Expenses	

TABLE 2: CORPORATE TAX

Tax Provisions	2005 Estimates ¹ (\$ millions)
Mining Tax¹¹	
Mining Tax Exemption	15
Mining Tax Holiday for Mines (other than remote mines)	s
Mining Tax Holiday for New Remote Mines	s
Mining Tax Rate for Remote Mines	s
Processing Allowance	40
<i>Items for Which an Estimate Is Not Available</i>	
Fast Writeoff of Exploration Costs	

Endnotes:

1. Estimates are forecast to the 2005 calendar year based on preliminary 2003 Ontario tax administration data, unless otherwise noted. Estimates do not include the revenue impact of corporate income tax expenditures provided to mutual fund corporations.
2. Estimates include the impact of both the corporate and personal income tax provisions.
3. The Apprenticeship Training Tax Credit was announced in the 2004 Ontario Budget. The estimated 2005-06 impact as provided in the Budget was \$95 million. Some of the apprenticeship programs previously included under the Cooperative Education Tax Credit (CETC) were transferred to the new credit. The estimate for the CETC was produced at the time of the 2004 Budget.
4. Included in the estimates is the impact of the proposed enhancements outlined in the 2005 Ontario Budget.
5. Relating to qualifying Ontario Research and Development expenses.
6. Estimates are *not* net of any Crown royalties and mining taxes paid.
7. Includes the impact of the Ontario surtax on Canadian-controlled private corporations.
8. Estimates based on assessed 2003 federal tax administration data, allocated to Ontario and forecast to 2005.
9. Estimate could overstate true value as it does not reflect the future reduction in tax revenues that would occur if those losses were instead deducted from future capital gains.
10. Ontario has legislated a schedule to eliminate capital tax by 2012.
11. Estimates are forecast to the 2005 calendar year based on preliminary 2003 Ontario mining tax administration data.

CORPORATE INCOME TAX

Ontario Refundable Tax Credits

Apprenticeship Training Tax Credit — A 25% (30% for small businesses) refundable corporate/personal income tax credit for corporations and unincorporated businesses hiring apprentices prior to January 1, 2008 in industrial, construction, motive power and certain service trades.

Co-operative Education Tax Credit — A 10% (15% for small businesses) refundable corporate/personal income tax credit for corporations and unincorporated businesses hiring a co-op student.

Ontario Book Publishing Tax Credit — A 30% refundable tax credit for Ontario book publishing companies for publishing and promoting the first three literary works by a Canadian author in each eligible category of writing.

Ontario Business Research Institute Tax Credit — A 20% refundable tax credit for contract research and development (R&D) performed at eligible Ontario research institutes.

Ontario Computer Animation and Special Effects Tax Credit — A 20% refundable tax credit for digital animation and special effects in films or television productions. The credit is available in addition to Ontario's film and television tax credits.

Ontario Film and Television Tax Credit — A 20% (rate proposed to increase to 30% effective January 1, 2005 to December 31, 2009) refundable tax credit for certified domestic film and television production activity in Ontario. First-time producers are eligible for an additional 10% credit. There is a 10% bonus credit for filming outside the Greater Toronto Area.

Ontario Innovation Tax Credit — A 10% refundable tax credit for small corporations performing R&D in Ontario.

Ontario Interactive Digital Media Tax Credit — A 20% refundable tax credit for the creation, marketing and distribution of original interactive digital media products.

Ontario Production Services Tax Credit — An 11% (rate proposed to increase to 18% effective January 1, 2005 to March 31, 2006) refundable tax credit for foreign-based and non-certified domestic film and television production activity in Ontario.

Ontario Sound Recording Tax Credit — A 20% refundable tax credit for Ontario sound recording companies for producing and marketing sound recordings by an emerging Canadian artist or group.

Ontario Deductions and Exemptions

Additional Deduction for Credit Unions — A credit union may be eligible for a tax credit of up to 8.5% of its taxable income in excess of the income eligible for the small business deduction.

Assets Used to Generate Clean Energy — An immediate 100% deduction for new assets acquired before January 1, 2008 that are used to generate electricity from clean, alternative or renewable energy sources.

Manufacturing and Processing (M&P) and Resource Sector Credit — The general corporate income tax rate is reduced two percentage points to 12% for income from M&P (including income from the sale of electrical generation and from the production of steam), and farming, fishing, mining and logging.

Non-taxation of the Federal Investment Tax Credit — Federal investment tax credits earned for Scientific Research and Experimental Development incurred in Ontario are exempt from Ontario corporate income tax.

Ontario Current Cost Adjustment — An additional 30% deduction from income for acquiring new pollution control equipment.

Ontario Depletion Allowance — An additional deduction from income of a stated percentage of certain pre-1990 resource expenditures.

Ontario New Technology Tax Incentive — An immediate 100% deduction for qualifying intellectual property in a qualifying property transfer.

Ontario Political Contributions — A corporation may deduct from its taxable income certain contributions to registered Ontario political parties, constituency associations and candidates.

Ontario Resource Allowance — A deduction equal to 25% of resource profits that functions as a proxy for Crown royalties and mining taxes paid, which are not deductible for Ontario income tax purposes.

Ontario School Bus Safety Tax Incentive — An additional 30% deduction for corporations (5% refundable personal income tax credit for unincorporated businesses) for new, safer school buses acquired before January 1, 2006.

Small Business Deduction — Canadian-controlled private corporations qualify for a reduced corporate income tax rate of 5.5% on the first \$400,000 of active business income. The benefit of the lower rate is generally phased out as taxable income rises to \$1,128,519.

Exemptions, Deductions and Deferrals Shared with the Federal Government

Allowable Business Investment Losses — A portion of capital losses with respect to shares or debts of a small business corporation (allowable business investment losses) may be used to offset other income.

Deductibility of Charitable Donations — Donations to registered charities are deductible in computing taxable income within certain limits.

Deductibility of Gifts to the Crown — Gifts to Canada or a province are deductible in computing taxable income within certain limits.

Deductibility of Gifts of Cultural Property and Ecologically Sensitive Land — Gifts of cultural property and ecologically sensitive land are deductible in computing taxable income within certain limits.

Deferral of Income for Farmers — Income received from herd reduction in a drought region or the statutory forced destruction of livestock can be deemed to be income in the following year. Cash purchase tickets for deliveries of grain before year-end only become income in the year the tickets are cashed.

Holdback on Progress Payments to Contractors — A contractor may exclude from taxable income the portion of progress payments (e.g., 10% to 15%) that may be held back until a project is completed satisfactorily.

Non-taxation of Non-profit Organizations — Non-profit corporations are generally exempt from income tax.

Partial Inclusion of Capital Gains — Fifty per cent of net realized capital gains are included in income. The amount of the tax expenditure is the additional tax that would have been collected had the full amount of the capital gains been included in income.

Items for Which an Estimate Is Not Available

Accelerated Writeoff of Capital Assets and Resource-related Expenditures — The difference between accelerated deductions for tax purposes (i.e., Capital Cost Allowance) and the true economic rate of depreciation based on an asset's useful life. Includes certain capital equipment for R&D and manufacturing as well as costs associated with exploration and development.

Cash-basis and Flexibility in Inventory Accounting — Corporations engaged in farming and fishing may elect to include revenues when received, rather than when earned, and deduct expenses when paid rather than when the related revenue is reported. Farmers using the cash-basis method of accounting are allowed to depart from it with respect to their inventory.

Deductibility of Countervailing and Anti-dumping Duties — Cash outlays for duties are deductible in the year they are paid even though these amounts may be refunded, in whole or in part, in a subsequent year.

Deferral Through Capital Gains Rollovers — The realization of capital gains may be deferred for tax purposes through various rollover provisions.

Deferral Through Use of Billed-basis Accounting by Professionals — In computing their income for tax purposes, professionals are allowed to elect either an accrual or billed-basis accounting method. Under the latter method, the costs of work in progress can be written off as incurred even though the associated revenues are not brought into income until the bill is paid or becomes receivable. This treatment gives rise to a deferral of tax.

Expensing of Advertising Costs — Advertising expenses are deductible on a current basis even though some of these expenditures provide a benefit in the future.

Non-taxation of Provincial, Municipal and Federal Crown Corporations — Provincial, municipal and certain federal Crown corporations are generally not subject to income tax.

Non-taxation of Registered Charities — Registered charities are generally exempt from income tax.

Tax Exemption on Income of Foreign Affiliates of Canadian Corporations — Active business income from foreign affiliates is exempt from taxation until repatriated in the form of dividends.

Taxation of Capital Gains Upon Realization — Capital gains are taxed upon the disposition of property and not on an accrual basis. This provides a tax deferral.

CAPITAL TAX

Capital Tax Deduction — The first \$7.5 million is deducted from taxable paid-up capital for purposes of calculating Ontario capital tax. The deduction will increase to \$10 million on January 1, 2006, \$12.5 million on January 1, 2007, and \$15 million on January 1, 2008.

Deferred Mining Exploration and Development Expenses — Mining corporations may deduct the full cost of exploration and development expenses from paid-up capital.

Deferred Ontario New Technology Tax Incentive (ONTTI) and Scientific Research and Experimental Development (SR&ED) Costs — Corporations may deduct the full amount of ONTTI and SR&ED assets from paid-up capital.

Exemption for Assets Used to Generate Clean Energy — Assets used to generate electricity from clean, alternative or renewable energy sources and acquired by December 31, 2007 are exempt from capital tax.

Exemption for Family Farm Corporations, Family Fishing Corporations, Credit Unions and Other Specified Entities — Credit unions, caisses populaires, family farm corporations, fishing corporations and other specified entities are exempt from capital tax.

Small Business Investment Tax Credit for Financial Institutions — The tax credit reduces the capital tax liability of financial institutions and is available for patient capital investments in small businesses, for below-prime loans made to small businesses and for investments in Community Small Business Investment Funds.

Items for Which an Estimate Is Not Available

Renounced Mining Expenses — Mining corporations may deduct from paid-up capital exploration and development expenses renounced to individual shareholders.

MINING TAX

Mining Tax Exemption — Annual mining profits up to \$500,000 are exempt from mining tax.

Mining Tax Holiday for Mines (other than remote mines) — For a period of three years, the first \$10 million of profits generated by a new mine or a major expansion of an existing mine are exempt from mining tax.

Mining Tax Holiday for New Remote Mines — For a period of 10 years, the first \$10 million of profits generated by a new mine opened in a remote Ontario location are exempt from mining tax.

Mining Tax Rate for Remote Mines — After the 10-year mining tax holiday period ends for new remote mines, a 5% mining tax rate applies to profits from the operation of a remote mine.

Processing Allowance — Mine operators that process mine output in Canada receive an allowance deduction from mining profits based on the capital cost of processing assets. The allowance can range from 8% to 20% depending on the type and location of the asset.

Items for Which an Estimate Is Not Available

Fast Writeoff of Exploration Costs — Up to 100% of exploration, development and pre-production costs incurred by a mine operator in Ontario may be deducted in a taxation year.

SALES AND COMMODITY TAX

Provisions relating to sales and commodity taxes including the Land Transfer Tax, Fuel Tax, Gasoline Tax, Retail Sales Tax and Tobacco Tax are presented in Table 3.

TABLE 3: SALES AND COMMODITY TAX

Tax Provisions	2005 Estimates¹ (\$ millions)
Land Transfer Tax	
Exemptions	
Life Leases ²	1
Deferrals and Exemptions for Corporate Reorganizations ³	37
<i>Items for Which an Estimate Is Not Available</i>	
Hospital Restructuring	
Oil/Pipeline Easements and Mineral Lands	
Other Transfers and Dispositions	
Refunds	
Refund for First-time Home Buyers ³	35
Fuel Tax	
Exemptions/Reduced Rates	
Exemption for Biodiesel ⁴	s
Exemption for Coloured Fuel ⁵	420
Reduced Rate for Railway Diesel ⁶	30
Refunds	
Auxiliary Power Take-off Equipment ³	5
Gasoline Tax	
Exemptions/Reduced Rates	
Exemption for Ethanol, Methanol and Natural Gas ⁷	38
Reduced Rate for Aviation Aircraft ⁸	260
Reduced Rate for Propane ⁸	10
Refunds	
Auxiliary Power Take-off Equipment ³	s
Aviation Fuel ³	s
Tax-exempt Use in Unlicensed Equipment ³	7

TABLE 3: SALES AND COMMODITY TAX

Tax Provisions	2005 Estimates ¹ (\$ millions)
Retail Sales Tax	
Exemptions	
25¢ Coin Pay Phone Calls ²	10
Agricultural Goods	265
Audio Books Purchased by Persons Who Are Legally Blind ²	4
Automobile Insurance Premiums ^{9,10}	845
Basic Groceries	1,560
Books, Newspapers and Magazines Sold by Subscription	355
Children's Car Seats and Booster Seats ¹¹	4
Children's Clothing	110
Commercial Aircraft, Vessels Greater than 1,400 Cubic Metres and Commercial Vessels Less than 1,400 Cubic Metres	70
Custom Software ¹²	70
Donations to Schools, Colleges and Universities ²	6
Educational CD-ROMs and DVDs ²	3
Energy	4,090
Feminine Hygiene Products ¹¹	17
Footwear Sold for \$30 or Less	30
Goods Purchased for Use by Fishers and Fur-trappers	s
Individual Life and Health Insurance Premiums ¹⁰	415
Mobile Homes	s
Municipal Fire-fighting Equipment	s
Prepared Foods Sold for \$4 or Less ¹¹	210
Prescription Drugs and Medical Supplies	590
Production Machinery and Equipment	600
Religious Equipment	9
Repairs and Replacements Performed Under Warranty ⁹	140
Seedlings	s
Services	8,930
Toll-free Telephone Services ²	42
Transient Accommodation ¹³	85
University Research Equipment	7

TABLE 3: SALES AND COMMODITY TAX

Tax Provisions	2005 Estimates ¹ (\$ millions)
<i>Items for Which an Estimate Is Not Available</i>	
Admissions	
Municipal, Hospital Restructuring	
Museums and Art Galleries	
Used Adult Clothing or Footwear Sold for \$50 or Less by Religious, Charitable and Benevolent Organizations	
Credits/Rebates	
Rebate for Alternative Fuel Vehicles ³	1
RST Rebate for Building Materials for Religious, Charitable and Benevolent Organizations ³	25
Tax Credit for Fuel Conservation ¹⁴	5
Temporary Exemption for Destination Marketing Fees ¹¹	2
Temporary Rebate for Building Materials Incorporated into Electricity Generating, Qualifying Nuclear and Deep Lake-water Cooling Facilities ³	s
Temporary Rebate for Solar Energy, Wind Energy, Micro Hydro-electric and Geothermal Energy Systems ³	s
Vendor Compensation ¹⁵	100
Tobacco Tax	
Compensation for Tax Collectors ¹⁶	s

Endnotes:

1. Estimates are forecast to the 2005 calendar year based on preliminary 2001 provincial Input-Output tables from Statistics Canada, unless otherwise noted.
2. Based on the Ontario Budget estimate, when the measure was proposed, projected to 2005.
3. Based on refunds filed or rebates/deferrals claimed.
4. Based on estimated amount of biodiesel sold in Ontario.
5. Based on returns filed by registered dyers.
6. Foregone revenue estimated as difference from the regular fuel tax rate.
7. Based on estimated ethanol volumes produced in and imported to Ontario.
8. Foregone revenue estimated as difference from the regular gasoline tax rate.
9. Estimates assume items would be taxed at 8% general RST rate.
10. Based on insurance premiums data provided by the Financial Services Commission of Ontario.
11. Estimates derived from consumer spending data.
12. Based on Statistics Canada Computer Software and Related Services Industry Revenue Profile.
13. The RST rate on accommodations is 5%. Foregone revenue estimated as the difference from the regular RST rate of 8%.
14. Based on new passenger vehicle sales.
15. Based on returns filed by RST vendors.
16. Based on returns filed by tobacco tax collectors.

SALES AND COMMODITY TAX — DESCRIPTION OF TAX PROVISIONS

LAND TRANSFER TAX

Exemptions

Life Leases — There is a land transfer tax (LTT) exemption for the acquisition of a unit in a non-profit or charitable life-lease development, where the unit is used as the principal residence of the owner, the owner's spouse or parent.

Deferrals and Exemptions for Corporate Reorganizations — Transfers between corporations can be made without LTT, providing the transfer is between affiliated corporations, or as part of certain corporate reorganizations, and is not registered on title.

Items for Which an Estimate Is Not Available

Hospital Restructuring — Transfers between hospitals as a result of an amalgamation or the closure/transfer of hospital programs are exempt.

Oil/Pipeline Easements and Mineral Lands — There are LTT exemptions regarding the acquisition of an easement or right of way in land for the purpose of enabling an oil or gas pipeline to be constructed/operated, and for certain acquisitions of mineral rights.

Other Transfers and Dispositions — There are LTT exemptions for certain transfers and dispositions of land, including conveyances to the Crown, transfers between spouses, and transfers of family farms or family businesses. There are also exemptions for unregistered dispositions relating to employee relocation packages, as well as for the acquisition of a *de minimus* interest in a partnership and the acquisition of a unit in a mutual fund trust.

There are also various other tax expenditures including no tax payable for a transfer of a leasehold interest in land that has an unexpired term that cannot exceed 50 years and a reduction in the value of consideration for land purchased to replace land taken under statutory authority.

Refunds

Refund for First-time Home Buyers — An LTT refund is available for first-time buyers of newly constructed homes. The maximum amount of the refund is \$2,000.

FUEL TAX

Exemptions/Reduced Rates

Exemption for Biodiesel — Biodiesel is exempt from the 14.3 cents/litre tax under the *Fuel Tax Act*, regardless of whether it is mixed with diesel fuel.

Exemption for Coloured Fuel — Coloured fuel is exempt from the 14.3 cents/litre tax under the *Fuel Tax Act*. Examples of permitted coloured fuel use are operating unlicensed construction, forestry, mining, farm and other business equipment; generating electricity; use as heating, lighting or cooking fuel; and operating commercial marine vessels.

Reduced Rate for Railway Diesel — Diesel fuel used to power locomotives is taxed at the rate of 4.5 cents/litre.

Refunds

Auxiliary Power Take-off Equipment — Powering a unit from an engine that uses taxable fuel from a vehicle's tank is considered a "Power Take-off" function and qualifies for a refund of the 14.3 cents/litre fuel tax (e.g., mixer on ready-mix concrete trucks).

GASOLINE TAX

Exemptions/Reduced Rates

Exemption for Ethanol, Methanol and Natural Gas — Ethanol, methanol and natural gas are exempt from the 14.7 cents/litre gasoline tax. In the case of ethanol-gasoline blends, the ethanol portion of the blend is exempt.

Reduced Rate for Aviation Aircraft — Aviation fuel purchased or delivered in Ontario, or transferred into fuel tanks of an aircraft in Ontario, is taxed at the rate of 2.7 cents/litre.

Reduced Rate for Propane — Propane is taxed at the rate of 4.3 cents/litre.

Refunds

Auxiliary Power Take-off Equipment — Powering a unit from an engine that uses gasoline from a vehicle's tank is considered a "Power Take-off" function and qualifies for a refund of the 14.7 cents/litre gasoline tax.

Aviation Fuel — Aviation fuel used for technical stops refuelling at Ottawa International Airport is eligible for a refund of the 2.7 cents/litre aviation fuel tax.

Tax-exempt Use in Unlicensed Equipment — Any equipment or vehicle that is not licensed or required to be licensed under the *Highway Traffic Act* and operated in Ontario by any business, industry or institution (excluding recreational use) may qualify for a refund of gasoline and/or propane tax. Examples of equipment for which a refund may be claimed include unlicensed farming, construction and forestry equipment, and boats used in business operations such as commercial or construction boats.

RETAIL SALES TAX

Exemptions

25¢ Coin Pay Phone Calls — An RST exemption applies to the 25¢ charge for local telephone calls made by depositing coins into pay telephones.

Agricultural Goods — RST exemptions are provided for a wide range of agricultural products and goods used in the agricultural industry.

Audio Books Purchased by Persons Who Are Legally Blind — Audio books can be purchased exempt from RST by or for a person who is legally blind, as identified by a Canadian National Institute for the Blind membership card.

Automobile Insurance Premiums — Auto insurance premiums are exempt from RST.

Basic Groceries — Groceries exempt from RST include the majority of food products for preparation and consumption at home, as well as vitamins and minerals. Tax is charged on soft drinks, candies and confections, certain snack foods and alcoholic beverages.

Books, Newspapers and Magazines Sold by Subscription — Books published solely for educational, technical, cultural or literary purposes and containing no third-party advertising are exempt. Exempt newspapers include unbound printed publications that are usually issued daily or weekly, and contain news, advertising and literary matter. Exempt magazines include those that are sold by subscription and that are printed bound publications issued annually or more frequently and that contain articles from various identified contributors and may also contain pictures and advertising. This exemption also pertains to newsletters and to publications produced or purchased by religious, charitable or benevolent organizations. The 2005 Ontario Budget proposed that the RST exemption for publications produced or purchased by religious, charitable or benevolent organizations be extended to include CD-ROMs and DVDs used to promote the objectives of the organization.

Children's Car Seats and Booster Seats — Car seats intended to secure children within a motor vehicle and that meet prescribed federal government standards are exempt. The 2005 Ontario Budget proposed that the exemption be extended to include booster seats.

Children's Clothing — Clothing, in sizes up to and including girls' Canada Standard Size 16 and boys' Canada Standard Size 20, or clothing designed for girls or boys and sized small, medium or large, is exempt from RST. Diapers are also included in the exemption.

Commercial Aircraft, Vessels Greater than 1,400 Cubic Metres, and Commercial Vessels Less than 1,400 Cubic Metres — Commercial air and water transportation equipment generally capable of interjurisdictional travel is exempt.

Custom Software — Custom computer programs are exempt from RST. Custom computer programs are those that are designed and developed solely to meet the specific requirements of, and that are intended for the exclusive use of, a particular person. This includes computer programs that are modified to meet the specific requirements of a particular person where the price of the modification is greater than the cost of the pre-written program if sold separately, or if sold together, the price for the modified program is more than 200% of the unmodified program.

Donations to Schools, Colleges and Universities — Gifts to schools, colleges and universities are exempt from RST.

Educational CD-ROMs and DVDs — CD-ROMs purchased by schools, school boards, community colleges, universities and public libraries are exempt from RST. The 2005 Ontario Budget proposed that the exemption be extended to include educational DVDs, provided they will not be used for commercial exhibition for profit.

Energy — Forms of energy exempt from RST include electricity, home heating fuels, cooking fuels, wood, coal, coke and energy sources taxed under other Acts.

Feminine Hygiene Products — Sanitary pads, sanitary belts and tampons are exempt from RST.

Footwear Sold for \$30 or Less — Regardless of size, individual footwear sold for \$30 or less per pair is exempt.

Goods Purchased for Use by Fishers and Fur-trappers — RST exemptions are provided for a number of goods used by persons engaged in the business of fishing or fur-trapping.

Individual Life and Health Insurance Premiums — RST does not apply to premiums for individual life and health insurance.

Mobile Homes — Mobile homes are taxed at 8% on 50% of the dealer’s selling price and modular homes at 8% on 55% of the manufacturer’s selling price to the dealer. Mobile and modular homes eligible for exemption are those that are built to CSA Z240 standards and represent an alternate form of “home building” intended for permanent placement on a site.

Municipal Fire-fighting Equipment — Fire-fighting vehicles when purchased at a price of more than \$1,000 per vehicle for the exclusive use of a municipality, university, public hospital, local services board or volunteer group, and repair parts for such vehicles, are exempt from RST.

Prepared Foods Sold for \$4 or Less — Tax applies to all prepared foods, including takeout, with the exception of prepared foods for which the total charge is \$4 or less.

Prescription Drugs and Medical Supplies — A variety of drugs, medicines and medical supplies used to treat or cope with an illness, chronic disease or physical disability are exempt from RST. This exemption may be conditional upon prescription by an authorized health care practitioner (e.g., prescription drugs, optical devices); purchase by a hospital or other health care facility for patient care (e.g., specialized beds, medical supplies, medical equipment); or goods designed solely for dealing with a particular condition and thus specifically exempted within the *Retail Sales Tax Act* (e.g., artificial limbs, orthopedics, other equipment or animals for persons with physical disabilities).

Production Machinery and Equipment — Machinery, equipment and other apparatus used primarily and directly in the manufacturing or production of tangible personal property are exempt. Ontario also exempts consumables and processing materials; R&D equipment for manufacturers and non-profit medical R&D equipment; explosives and refractory materials; plans and drawings; and typesetting, artwork and similar materials.

Religious Equipment — Equipment used by a religious institution exclusively in that part of its premises where religious worship or sabbath school is regularly conducted (e.g., altars, baptismal fonts, linens, organs, pulpits, stained glass) is exempt.

Repairs and Replacements Performed Under Warranty — Parts and labour used to carry out repairs under warranty are exempt from RST.

Seedlings — Cones, cuttings, seeds, seedlings, similar planting stock and other such silvicultural material when purchased for planting in a Crown forest, by a person

holding a subsisting forest resource licence issued by the Ministry of Natural Resources, are exempt.

Services — Services are generally exempt except for a number of specifically listed items such as telecommunications, repair and maintenance labour, and parking.

Toll-free Telephone Services — Toll-free telephone services can be bought exempt by any commercial, industrial, institutional, vocational, occupational or other organization for business use. Toll-free telephone services include telephone numbers beginning with 1-800, 1-888, 1-877, 1-866, etc.

Transient Accommodation — Purchasers of transient accommodation (lodging in hotels, motels, hostels, apartment houses, clubs and other similar accommodation for periods of less than one month) pay tax at the rate of 5%.

University Research Equipment — Equipment purchased by the governing body of a university that is designed for use, and used exclusively in research and investigation, and repair parts for that equipment are exempt from RST.

Items for Which an Estimate Is Not Available

Admissions — All admissions \$4 and under are exempt. In addition, a number of special exemptions are provided, including admissions to live theatrical or musical performances in places of amusement where 90% of the performers are permanent residents of Canada; admissions to live events (e.g., plays, ballets, concerts, operas) held at theatres with 3,200 seats or less; events such as trade shows that are restricted to members of specified organizations and not advertised as being open to the general public; fund-raising events where no performer is paid or receives any other consideration for performing; and events held or sponsored by federally registered Canadian amateur athletic associations and their affiliates, federally registered charitable groups, labour unions and benevolent and fraternal societies, agricultural societies operating a place of amusement during an agricultural fair, or recognized educational institutions.

Municipal, Hospital Restructuring — Sales tax is not payable by a municipality or public hospital on the acquisition of tangible personal property from another municipality or hospital as part of a statutory restructuring, legally required amalgamation or closure of a hospital or hospital program.

Museums and Art Galleries — Museums and art galleries that are more than 50% funded by public donations and grants by public bodies may purchase works of art exempt of sales tax.

Used Adult Clothing or Footwear Sold for \$50 or Less by Religious, Charitable and Benevolent Organizations — The sale of used clothing and footwear by a religious, charitable or benevolent organization, where the clothing and footwear are sold in one transaction for \$50 or less, is exempt from RST.

Credits/Rebates

Rebate for Alternative Fuel Vehicles — The RST paid on vehicles powered by alternative fuels is refunded, to a maximum of \$750 for propane vehicles and \$1,000 for vehicles powered by any other alternative fuel. Certain hybrid electric passenger vehicles are also eligible for the rebate.

RST Rebate for Building Materials for Religious, Charitable and Benevolent Organizations — The Minister may rebate to the governing body of a religious, charitable or benevolent organization the RST inherently paid on building materials used in the construction or repair of real property owned by or under lease for a minimum of 20 years to the organization.

Tax Credit for Fuel Conservation — A \$100 RST credit, the Tax Credit for Fuel Conservation, is available to purchasers of a new passenger automobile that consumes less than six litres of fuel per 100 kilometres of highway driving.

Temporary Exemption for Destination Marketing Fees — There is an RST exemption for Destination Marketing Fees (DMFs) charged on transient accommodation on or after May 19, 2004 and on or before May 18, 2005. The 2005 Ontario Budget proposed that the exemption be extended to include DMFs billed on or before June 30, 2006.

Temporary Rebate for Building Materials Incorporated into Electricity Generating, Qualifying Nuclear and Deep Lake-water Cooling Facilities — A rebate is available for RST paid on building materials purchased and incorporated into eligible electricity generating facilities or deep lake-water cooling facilities on or after November 26, 2002 and on or before December 31, 2007. The rebate is also available for building materials purchased and incorporated into qualifying nuclear facilities on or after June 2, 2003 and on or before December 31, 2007. The rebate applies to new facilities as well as upgrades and expansions of existing facilities.

Temporary Rebate for Solar Energy, Wind Energy, Micro Hydro-electric and Geothermal Energy Systems — A rebate is available for RST paid on the purchase of a new solar energy system installed into a residential premises, including a multi-residential building, or on any expansion or upgrade to an existing solar energy system. Systems must be purchased and incorporated on or after November 26, 2002 and on or before November 25, 2007. The 2004 Ontario Budget extended the rebate

to include wind energy, micro hydro-electric and geothermal energy systems, or any expansion or upgrade to those systems, purchased and incorporated into a residential premises, including a multi-residential building, on or after March 28, 2003 and on or before November 25, 2007.

Vendor Compensation — Compensation is given to vendors for collecting RST on behalf of the Province. Compensation is based on the amount of RST collected on sales for the period. The maximum amount that can be claimed in compensation is \$1,500 for a 12-month period from April 1 to March 31.

TOBACCO TAX

Compensation for Tax Collectors — Those who collect tobacco tax may be paid the lesser of \$2,000 or 4% of the tax collected from April 1 to March 31 annually. For tax increases, wholesalers may claim 5% of the tax differential when required to conduct an inventory by the minister.

EDUCATION PROPERTY TAX

Table 4 provides estimates of tax provisions relating to the Education Property Tax system.

TABLE 4: EDUCATION PROPERTY TAX¹

Tax Provisions	2005 Estimates ² (\$ millions)
Brownfields Financial Tax Incentive Program	s
Charity Rebate	6
Conservation Land Property Tax Exemption Program	2
Eligible Convention Centres Exemption	1
Eligible Live Performance Theatres Exemption	8
Farm Property Class Tax Rate Reduction	70
Farmlands Awaiting Development Sub-Class Tax Rate Reduction	1
Heritage Property Tax Rebate	s
Managed Forest Tax Incentive Program	2
Seniors and Persons with Disabilities Property Tax Relief ³	s
Tax Exemptions Under Private Statutes	6
Vacant Commercial and Industrial Unit Rebate	35
Vacant Land and Excess Land Sub-Class Tax Rate Reduction	55
<i>Items for Which an Estimate Is Not Available</i>	
Other Tax Exemptions Under Public Statutes ⁴	
Discretionary exemptions granted by municipalities to special purpose properties (e.g., legions, navy leagues, municipal capital facilities)	
Mandatory exemptions granted to special purpose/institutional properties (e.g., places of worship, cemeteries, The Boy Scouts Association of Canada and The Canadian Girl Guides Association, Canadian Red Cross, St. John Ambulance and charitable, non-profit philanthropic corporations organized for the relief of the poor and supported in part by public funds)	
Relief from Property Taxes That Are Unduly Burdensome for Residential, Farm or Managed Forest Properties	

Endnotes:

1. Expenditures related to provincial land taxes or payments made in lieu of taxes have not been included.
2. Estimates based on 2005 education tax rates, 2005 Assessment Roll, 2004 Municipal Financial Information Returns where available, otherwise 2003 Municipal Financial Information Returns and municipal tax policies.
3. Estimate does not include expenditures due to the exemption from taxation on 10% of the assessment of improvements to accommodate seniors and persons with disabilities in newly built homes or the expenditure on such improvements in existing homes.
4. See description for a detailed list of special purpose/institutional properties subject to discretionary or mandatory exemption.

EDUCATION PROPERTY TAX — DESCRIPTION OF TAX PROVISIONS

Brownfields Financial Tax Incentive Program — Municipalities may freeze or cancel the taxes on eligible brownfields properties for a defined period, and the Province may provide matching relief from education tax.

Charity Rebate — Municipalities must rebate a minimum of 40% of the municipal and education taxes paid by charities in the commercial and industrial property classes, and may rebate any amount of property taxes paid by charities in other property classes. Municipalities may also rebate any percentage of the municipal and education taxes paid by non-profit organizations.

Conservation Land Property Tax Exemption Program — Eligible conservation lands are exempt from municipal and education property taxes.

Eligible Convention Centres Exemption — Eligible large, privately owned convention centres are exempt from education property taxes.

Eligible Live Performance Theatres Exemption — Eligible theatres for live performances are exempt from municipal and education property taxes.

Farm Property Class Tax Rate Reduction — Eligible farm properties are subject to residential education property tax rates reduced by 75%. For municipal purposes, these properties are subject to residential property tax rates reduced by a locally determined amount of at least 75%.

Farmlands Awaiting Development Sub-Class Tax Rate Reduction — Eligible farmlands awaiting development may receive a locally determined reduction from the otherwise applicable tax rates.

Heritage Property Tax Rebate — Municipalities may adopt a program to reduce the municipal and education property taxes of eligible heritage properties by up to 40%.

Managed Forest Tax Incentive Program — Eligible managed forest properties are subject to residential property tax rates for municipal and education purposes that are reduced by 75%.

Seniors and Persons with Disabilities Property Tax Relief — Expenditures under this category include locally determined municipal and education property tax relief in the form of reduced, cancelled or deferred reassessment-related tax increases

on residential properties of low-income seniors and persons with disabilities; the exemption from property taxation of improvements to an existing home to accommodate seniors or persons with disabilities; and the exemption from taxation on 10% of the assessment of newly built homes that provide accommodation to seniors and persons with disabilities.

Tax Exemptions Under Private Statutes — Property tax exemptions have been granted through private statutes to various cultural, heritage, recreational and community service organizations (e.g., YMCAs).

Vacant Commercial and Industrial Unit Rebate — Municipalities must rebate from 30% to 35% of the municipal and education property taxes paid with respect to vacant commercial and industrial buildings or portions of buildings (if vacancy exceeds 90 consecutive days).

Vacant Land and Excess Land Sub-Class Tax Rate Reduction — Municipal and education property tax rates on vacant and excess lands in the commercial and industrial property classes are reduced by 30% to 35% of the otherwise applicable class tax rates.

Items for Which an Estimate Is Not Available

Other Tax Exemptions Under Public Statutes:

(1) Discretionary exemptions granted by municipalities to special purpose properties include:

- Properties used and occupied as memorial homes, clubhouses or athletic grounds by veterans of the Canadian or Allied Armed Forces;
- Properties owned by the Navy League of Canada and used and occupied solely for the purposes of carrying out the activities of the Ontario division of the Navy League;
- Municipal capital facilities operated by private-sector partners and used for municipal purposes. Examples of such facilities could include ice rinks, community centres and municipal housing project facilities; and
- Properties occupied by not-for-profit hospital service corporations for providing laundry and/or food services.

(2) Mandatory exemptions granted to special purpose/institutional properties include:

- Places of worship that are owned by a church or religious organization, including 50% of the principal residence of the clergy;
- Cemeteries and burial sites;

- Land owned, used and occupied solely by a non-profit philanthropic, religious or educational seminary of learning;
- Land owned by a municipality (but not if occupied by a taxable tenant);
- Property owned, occupied and used solely by The Boy Scouts Association of Canada or The Canadian Girl Guides Association;
- Land owned, used and occupied by a non-profit philanthropic corporation for the purpose of a house of refuge;
- Land owned, used and occupied by the Canadian Red Cross, St. John Ambulance, or a charitable, non-profit philanthropic corporation organized for the relief of the poor that is supported in part by public funds;
- The property of a children's aid society if used exclusively for the purposes of and in connection with the society;
- The property of scientific and literary institutions including public libraries and agricultural societies to the extent that it is occupied for the purposes of the society;
- Battle sites; and
- Exhibition sites (extent determined by municipal bylaw).

Relief from Property Taxes That Are Unduly Burdensome — Municipalities may reduce municipal property taxes where they are determined to be unduly burdensome to the owner of property in the residential, farm or managed forest property classes. Education taxes are reduced in the same proportion as municipal taxes.

EMPLOYER HEALTH TAX

The following table provides an estimate of the tax exemption under the 2005 Employer Health Tax system.

TABLE 5: EMPLOYER HEALTH TAX (EHT)

Tax Provisions	2005 Estimates (\$ millions)
\$400,000 Exemption for Private-sector Employers ¹	575

Endnote:

1. Estimate is forecast to the 2005 calendar year based on 1996 and 2003 EHT-filer data.

EMPLOYER HEALTH TAX

\$400,000 Exemption for Private-sector Employers — The Employer Health Tax is payable by all Ontario employers. Private-sector employers are exempt from tax on the first \$400,000 of annual total Ontario remuneration.

ESTATE ADMINISTRATION TAX

Table 6 provides an estimate of the 2005 exemption under the Estate Administration Tax.

TABLE 6: ESTATE ADMINISTRATION TAX

Tax Provisions	2005 Estimates (\$ millions)
Exemption Where the Value of the Estate Does Not Exceed \$1,000	s

ESTATE ADMINISTRATION TAX

Exemption Where the Value of the Estate Does Not Exceed \$1,000 — The Estate Administration Tax is payable by the estate of a deceased person immediately upon the issuance of an estate certificate. If the value of the estate does not exceed \$1,000, the estate is exempt from tax.

GROSS REVENUE CHARGE

Table 7 provides an estimate of the tax provision under the Gross Revenue Charge.

TABLE 7: GROSS REVENUE CHARGE (GRC) ¹

Tax Provisions	2005 Estimates ² (\$ millions)
Gross Revenue Charge 10-year Holiday	s

Endnotes:

1. Expenditure does not include the provincial water rental portion of the GRC.
 2. 2005 estimate based on 2003 GRC returns.
-

GROSS REVENUE CHARGE

Gross Revenue Charge (GRC) — The GRC is paid with respect to hydro-electric generating sites, replacing municipal and education property taxes and provincial water rental charges. A 10-year holiday from the GRC is provided for eligible new, expanded and redeveloped hydroelectric generating stations.

