ANNEX II: ENHANCING ONTARIO'S TAX COMPETITIVENESS

ENHANCING ONTARIO'S BUSINESS TAX COMPETITIVENESS

A competitive tax system helps attract investment and jobs to Ontario. It also helps ensure that Ontario's businesses are able to compete and thrive as well as to improve the standard of living for all Ontarians.

ONTARIO'S PROPOSED NEW TAX INITIATIVES

- Eliminating Capital Tax for manufacturing and resource activities on January 1, 2008 — a full two and one-half years earlier than scheduled.
- Cutting Capital Tax rates for all businesses by 21 per cent retroactive to January 1, 2007 — a full two years earlier than scheduled.
- Extending the lower small business corporate income tax rate to more small businesses effective January 1, 2007.
- Increasing the film tax credit rates effective January 1, 2008.
- Extending the phase-out of the Labour-Sponsored Investment Fund tax credit and increasing the maximum eligible investment.
- Expanding the Land Transfer Tax Refund Program for First-time Homebuyers to include resale homes for agreements of purchase and sale after December 13, 2007.

The government proposes new tax initiatives that would provide more than $1.4 billion in tax relief over three years. Of this amount, $1.1 billion in new tax relief would go to business, particularly for those sectors feeling the impacts of the high Canadian dollar and the slower U.S. economy.

These measures are in addition to the business tax cuts that the government has announced since 2004 that will provide more than $2 billion annually when fully implemented. These include Capital Tax elimination on July 1, 2010 and $540 million in reductions in high Business Education Tax rates.

For manufacturing and resource industries, previously announced and proposed new measures would mean an estimated cumulative benefit of more than $1 billion in tax relief from 2007–08 to 2009–10. This would further enhance Ontario's tax competitiveness, provide support to the manufacturing sector, and stimulate economic growth through increased investment.

New Measures to Further Reduce and Eliminate Capital Tax

The government has already taken significant steps towards lowering and ultimately eliminating the Capital Tax burden for Ontario businesses. Further action is proposed to enhance the Province's competitive advantages in business taxation, particularly for manufacturing, including the auto sector, and resource industries.

The government proposes to introduce legislation that would eliminate Capital Tax effective January 1, 2008 for Ontario companies primarily engaged in manufacturing or resource activities. The government also proposes to introduce legislation to provide a 21 per cent cut for all businesses effective January 1, 2007 by accelerating the Capital Tax rate cuts currently scheduled for January 1, 2009.

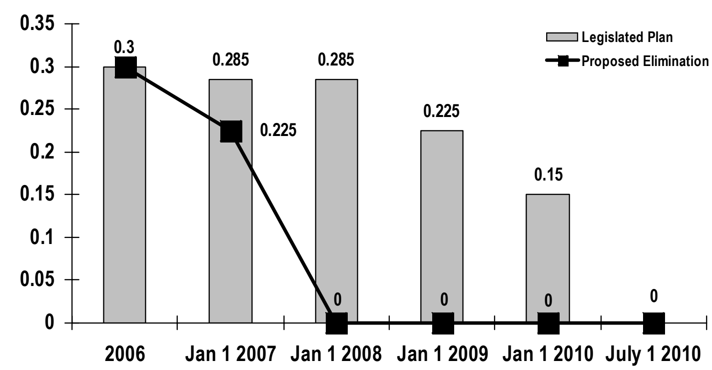
Under these two proposed measures, Ontario businesses would save $910 million over three years.

Eliminating Capital Tax for Manufacturing and Resource Activities

The proposed January 1, 2008 elimination of Capital Tax for manufacturing and resource activities would apply to corporations whose salaries and wages relating to manufacturing or processing, mining, logging, farming or fishing activities in Ontario represent 50 per cent or more of their total salaries and wages in Ontario.

Eliminating Capital Tax for Manufacturing and Resource Activities CHART 1

Capital Tax Rate (Per Cent)



Note: The proposed elimination graph line is intended to illustrate the trend in Capital Tax rates as a result of elimination — it does not reflect statutory Capital Tax rates between the data points.
Source: Ontario Ministry of Finance.

For corporations whose salaries and wages in Ontario for these activities comprise less than 50 per cent, but more than 20 per cent of their total salaries and wages in Ontario, Capital Tax would be reduced proportionately on a straight-line basis. For example, a corporation whose

Ontario salaries and wages for these activities comprise 35 per cent of total Ontario salaries and wages would have one-half of its Capital Tax eliminated.

Capital Tax Rate Cut of 21 Per Cent for All Corporations

The government proposes to accelerate to January 1, 2007, the Capital Tax rate cuts currently scheduled for January 1, 2009, two years ahead of schedule.

The government has been working steadily to reduce and eventually eliminate the Capital Tax, which acts as a barrier to investment.

As previously legislated, the Capital Tax deduction will rise from $12.5 million to $15 million on January 1, 2008. Capital Tax will be fully eliminated on July 1, 2010.

The following table sets out the Capital Tax elimination schedule with the proposed new measures.

Ontario's Accelerated Capital Tax Elimination Plan with Proposed New Initiatives **Table 1**

		Rates (%)					
		Non-Financial Institutions		Financial Institutions			
				1st $400 Million of Taxable Capital	Taxable Capital Over $400 Million		
	Deduction ($ M)	M&P and Resources[1]	Other Corporations		Non-Deposit Taking	Deposit Taking	
2004	5	0.3	0.3	0.6	0.72	0.9	
Jan. 1, 2007	12.5	0.285	0.285	0.57	0.684	0.855	
Jan. 1, 2007	12.5	**0.225**	**0.225**	**0.45**	**0.54**	**0.675**	**21% rate cut**
Jan. 1, 2008	15	**Eliminated**	**0.225**	**0.45**	**0.54**	**0.675**	
Jan. 1, 2009	15		0.225	0.45	0.54	0.675	
Jan. 1, 2010	15		0.15	0.3	0.36	0.45	
July 1, 2010	Legislated Accelerated Elimination Date						

Shading denotes proposed Capital Tax initiatives.
Measures would be pro-rated for taxation years straddling the effective date.
1 Primarily engaged in manufacturing or processing, mining, logging, farming or fishing activities in Ontario.

Expanding Eligibility for the Small Business Corporate Income Tax Rate

The government recognizes the important role of small businesses in job creation and economic growth. The government provides tax relief to assist small businesses with access to capital, to keep up with technological advancements and to find highly skilled employees. Currently, the small business deduction provides a lower Corporate Income Tax (CIT) rate of 5.5 per cent to Canadian-controlled private corporations (CCPCs) on the first $400,000 of active business income. The benefit of the small business deduction is gradually phased out on income earned by a CCPC between $400,000 and $1,128,519. The small business deduction currently provides almost $1.1 billion in tax relief to small corporations in Ontario.

The government proposes to further enhance support for small businesses by increasing the small business deduction threshold to $500,000 from $400,000, effective January 1, 2007. This would immediately extend the preferential small business CIT rate to the first $500,000 of business income. In addition, the small business deduction would be phased out once income reaches $1,500,000, rather than $1,128,519. The increase in the threshold would be pro-rated for taxation years straddling the effective date.

This measure would provide Ontario small businesses with $29 million of immediate tax relief. Over four years, the higher small business deduction threshold and upper taxable income limit would reduce taxes for small business by over $100 million. In particular, more than 20 per cent of this tax relief would go to small businesses in the manufacturing and resource industries.

Labour-Sponsored Investment Funds (LSIFs)

On September 30, 2005, following consultations with the LSIF industry, the government established a phase-out of the LSIF tax credit. The timetable of the phase-out allows investors who purchase LSIF shares to receive a provincial tax credit until the end of the 2010 tax year.
The government also introduced amendments to investment requirements and special wind-down rules to provide LSIFs greater flexibility in managing their portfolios.

The government proposes to extend the phase-out of the LSIF tax credit by one year by:

- maintaining the 15 per cent tax credit rate until the end of the 2009 tax year
- lowering the rate to 10 per cent for the 2010 tax year
- lowering the rate to five per cent for the 2011 tax year
- eliminating the credit for tax years after 2011.

The government also proposes to increase the maximum investment that qualifies for the provincial tax credit from $5,000 to $7,500.

The proposed changes will provide an estimated $38 million in additional financial assistance to the industry over three years. These measures are intended to assist LSIFs in the development of their investment strategies and in providing continuing support to the portfolio of companies in which they have invested.

Enhancing Tax Support for Ontario's Film and Television Industry

The government is proposing further steps to support growth and job creation in the film and television sector in Ontario. Creative industries and creative people are a critical component of an innovative and knowledge-based economy.

The government proposes to increase the Ontario Film and Television Tax Credit (OFTTC) rate from 30 to 35 per cent for labour expenditures incurred after December 31, 2007 and before January 1, 2010. The 10 per cent regional bonus would continue to be available for filming outside the Greater Toronto Area and first-time producers would remain eligible for an enhanced rate of 40 per cent on the first $240,000 of labour expenditures.

The government also proposes to increase the Ontario Production Services Tax Credit (OPSTC) rate from 18 to 25 per cent for labour expenditures incurred after December 31, 2007 and before January 1, 2010.

The OFTTC is available to Ontario-based, Canadian-controlled corporations for eligible film and television productions. The OPSTC is available to Ontario-based corporations for foreign and domestic productions not claimed under the OFTTC. Effective January 1, 2005, the OFTTC was raised to 30 per cent from 20 per cent until December 31, 2009, and the OPSTC rate was raised to 18 per cent from 11 per cent until March 31, 2006. The 18 per cent rate for the OPSTC has since been extended until March 31, 2008.

The government will also be working with the film industry to explore ways of advancing financial support for producers to the start of a production.

Land Transfer Tax (LTT) Refund for All First-Time Homebuyers

In keeping with the government's commitment to help Ontarians who are starting out, it is proposed that the LTT Refund Program for First-time Homebuyers be expanded to include purchases of resale homes. This measure would be effective for agreements of purchase and sale entered into after December 13, 2007. As a result of this change, first-time homebuyers of newly constructed or resale homes would be able to receive a refund from the provincial government of up to $2,000 of the LTT paid.

Fiscal Impact Summary of Proposed Tax Measures **Table 2**
($ Millions)

	2007–08	2008–09	2009–10
Cutting Capital Tax Rates and Eliminating Capital Tax for Manufacturing and Resource Activities	(340)	(425)	(145)
Increasing the Small Business Deduction Threshold	(29)	(26)	(27)
Labour-Sponsored Investment Funds (LSIFs)	(10)	(12)	(16)
Enhancing Film and Television Tax Credit Rates:			
Ontario Film and Television Tax Credit	(5)	(20)	(18)
Ontario Production Services Tax Credit	(5)	(30)	(26)
Land Transfer Tax Refund for All First-Time Homebuyers	(36)	(125)	(125)
Total	**(425)**	**(638)**	**(357)**

2007 TAX MEASURES TO SUPPORT JOBS AND PROSPERITY IN ONTARIO

Since the 2007 Ontario Budget, the government has implemented or is implementing the following initiatives to encourage job growth and prosperity for all Ontarians:

Personal Income Tax

- An increase in the lifetime capital gains exemption on farm or fishing property or small business shares from $500,000 to $750,000 will reduce taxes for individuals by about $18 million in 2007–08.
- An exemption for capital gains on gifts of publicly listed securities to private foundations will provide a benefit to donors of about $22 million in 2007–08.
- An increase in the age limit for maturing Registered Pension Plans and Registered Retirement Savings Plans, from 69 years of age to 71 years of age, will provide $20 million in benefits to taxpayers in 2007–08.
- The deductible portion of business-related meal expenses for truck drivers will be increased in stages from 50 per cent to 80 per cent by 2011.

Corporate Tax

- A temporary two-year accelerated capital cost allowance incentive for manufacturers and enhanced capital cost allowances for computer equipment, certain buildings, pipelines and clean energy generation, providing over $400 million in tax relief over three years to Ontario manufacturers.
- An additional Corporate Income Tax (CIT) deduction to support corporations that make donations of medicine to the developing world.
- A CIT and Corporate Minimum Tax exemption in respect of capital gains for gifts of publicly listed securities to private foundations.

Retail Sales Tax

- A retail sales tax (RST) exemption for bicycles costing $1,000 or less, bicycle helmets, and other bicycle safety equipment will save Ontarians $16 million in a full year.
- An RST exemption for nicotine replacement therapies will provide a benefit to Ontarians of $5 million in a full year.
- An RST exemption for Energy Star® household products including non-commercial refrigerators, dishwashers, clothes washers, freezers, dehumidifiers, room air conditioners, light bulbs and decorative light strings will save Ontarians $51 million in a full year.
- An expansion of the RST farm exemption to provide an additional benefit to farmers of $1 million annually.