

# **ANNEX V**

## **Transparency in Taxation, 2008**



## TRANSPARENCY IN TAXATION

Tax expenditure reporting is an important element of improved fiscal accountability. It increases fiscal transparency by providing a complete picture of revenue forgone in the tax system.

### STRUCTURE OF THE REPORT

This report provides estimates of revenue forgone in 2008 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.

This report includes descriptions only of tax provisions that are new or have been modified since the 2007 *Transparency in Taxation* report.

The descriptions are intended to provide a basic understanding of the provisions and do not replace the relevant legislation or regulations.

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Descriptions of the tax provisions presented in this report are available online at:  
[www.fin.gov.on.ca/english/budget/fallstatement/2008/](http://www.fin.gov.on.ca/english/budget/fallstatement/2008/)

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### SCOPE

Given the absence of a universally accepted definition of a “tax expenditure,” this report continues the broad approach adopted in previous reports of listing estimates of forgone revenue that could potentially be included under a broad-based tax system.

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 and the federal government are finalizing a corporate tax collection agreement. The agreement provides for the federal collection and administration of Ontario’s Corporate Income Tax, Minimum Tax, Capital Tax and Special Additional Tax on life insurers, effective for taxation years ending after 2008.

Similar to the tax collection agreement for Personal Income Tax, the corporate tax collection agreement requires Ontario to harmonize with the federal corporate income tax base.

## **METHOD**

The estimates in this report were developed using the latest available taxation or economic data, forecast to the 2008 calendar year. The data used to estimate the values of the tax provisions come from a variety of sources. The estimated value of a tax provision may differ from the amount reported in a prior year for a variety of reasons including amendments to the provision, changes in economic factors, revisions to the underlying data and improvements to the estimation method. Some tax provision estimates are particularly sensitive to economic conditions or other variables and, therefore, can fluctuate significantly from year to year.

It is important to note that the estimates in this report are not intended to represent the potential revenue gain for the Province 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. As a result, the estimates cannot be added together to determine the total cost of a particular group of tax expenditures.

Tax expenditure estimates of less than \$1 million are denoted by the letter “s” (small). This report also includes tax provisions for which relevant data from the tax system are not currently available to the Ministry of Finance. Although estimates may not be available, these items are listed 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 provisions listed here are for unincorporated businesses.

Personal Income Tax <sup>1</sup>	Table 1
Tax Provisions	2008 Estimates <sup>2</sup> (\$ Millions)
<b>Ontario Non-refundable Tax Credits</b>	
Adoption Expense Credit	s
Age Credit	265
Amounts Transferred from a Spouse or Common-law Partner	25
Basic Personal Credit	4,270
Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) Contributions Credit	555
Caregiver Credit	15
Charitable Donations Credit	645
Disability Credit	85
Eligible Dependant Credit	85
Employment Insurance (EI) Premiums Credit	190
Infirm Dependant Credit	1
Medical Expense Credit	145
Ontario Overseas Employment Tax Credit	6
Pension Income Credit	120
Spouse or Common-law Partner Credit	175
Student Loan Interest Credit	9
Tuition and Education Credits	290
<b>Ontario Tax Reduction (OTR)</b>	
OTR — Basic Reduction	185
OTR — Reduction for Dependent Children Under 19	200
OTR — Reduction for Disabled or Infirm Dependents	10
OTR — Total	330
<b>Employee Ownership and Ontario Labour Sponsored Investment Fund Tax Credits</b>	
Employee Ownership (EO) Tax Credit	s
Labour Sponsored Investment Fund (LSIF) Tax Credit	25
Research Oriented Investment Fund (ROIF) Tax Credit	1
<b>Ontario Refundable Tax Credits</b>	
Ontario Focused Flow-through Share Tax Credit	3
Ontario Political Contribution Tax Credit	5

Personal Income Tax <sup>1</sup>	Table 1
Tax Provisions	2008 Estimates <sup>2</sup> (\$ Millions)
<b>Ontario Property and Sales Tax Credits (OTCs)</b>	
OTCs — Non-seniors	450
OTCs — Seniors <sup>3</sup>	515
OTCs — Total <sup>3</sup>	965
<b>Exemptions, Deductions, Deferrals and Other Measures Shared with the Federal Government</b>	
<b>Business</b>	
<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	
<b>Employment</b>	
Deduction for Clergy Residence	15
Deduction of Home Relocation Loans	s
Deduction for Military and Police Deployed to High-risk International Missions	5
Deduction of Other Employment Expenses	270
Deduction of Union and Professional Dues	150
Employee Security Options	195
Moving Expense Deduction	20
Northern Residents Deductions	1
<i>Items for Which an Estimate is not Available</i>	
Deduction for Artists and Musicians	
Deduction for Tradespersons' and Apprentice Vehicle Mechanics' Tools	
Deduction for Tuition Assistance for Adult Basic Education	
Deferral of Salary Through Leave of Absence/Sabbatical Plans	
Employee Benefit Plans	
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	

**Tax Provisions**

2008 Estimates<sup>2</sup>  
(\$ Millions)

**Farming and Fishing**

*Items for Which an Estimate is not Available*

- Cash-basis and Flexibility in Inventory Accounting
- Deduction of Farm Losses for Part-time Farmers
- Deferral of Income for Farmers
- Net Income Stabilization Account for Farmers

**Investment**

\$750,000 Lifetime Capital Gains Exemption for Farm or Fishing Property and Small Business Shares	165
Deduction of Allowable Business Investment Losses	10
Deduction of Carrying Charges Incurred to Earn Income	295
Deduction of Resource-related Expenditures	185
Partial Inclusion of Capital Gains	1,130

*Items for Which an Estimate is not Available*

- 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 Reserves
- Deferral of Capital Gains Through Rollovers
- Deferral of Capital Gains Through 10-year Reserves for Farm or Fishing Property and Small Business Shares
- Deferral of Capital Gains Through Transfers to a Spouse or Spousal Trust
- Exemption for Capital Gains Arising from Certain Donations
- Non-taxation of Capital Gains on Principal Residences
- Taxation of Capital Gains Upon Realization

**Non-taxable Income**

Guaranteed Income Supplement and Allowance Benefits	35
Social Assistance Benefits and Provincial Supplements	25
Workers' Compensation Benefits	170

*Items for Which an Estimate is not Available*

- Certain Federal Government Pensions and Allowances
- Damages With Respect to Personal Injury or Death
- Death Benefits of Up to \$10,000

**Personal Income Tax<sup>1</sup>****Table 1****Tax Provisions****2008 Estimates<sup>2</sup>  
(\$ Millions)**

Employer-paid CPP/QPP Contributions and EI Premiums	
Gifts and Bequests	
Income of Status 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	
<b>Special Circumstances</b>	
Child Care Expense Deduction	175
Pension Income Splitting	200
Treatment of Alimony, Maintenance and Child Support Payments	35
<i>Items for Which an Estimate is not Available</i>	
Deduction Related to Vows of Perpetual Poverty	
Disability Supports Deduction	
Exemption of Scholarship, Fellowship and Bursary Income	
Tax-free Amount for Emergency Service Volunteers	
<b>Tax-deferred Savings</b>	
Registered Pension Plans (RPPs) — Deduction for Contributions	705
Registered Retirement Savings Plans (RRSPs) — Deduction for Contributions	2,005
<i>Items for Which an Estimate is not Available</i>	
Deferred Profit-sharing Plans	
Registered Disability Savings Plans (RDSPs) — Non-taxation of Investment Income and Federal Contributions	
Registered Education Savings Plans (RESPs) — Non-taxation of Investment Income and Federal Contributions	
RPPs and RRSPs — Non-taxation of Investment Income	

<sup>1</sup> Estimates do not include the impact of revenue forgone from Personal Income Tax provisions for trusts, which are taxed as individuals under the *Income Tax Act*.

<sup>2</sup> Estimates are based on 2005 tax-filer data forecast to represent the 2008 taxation year, unless otherwise noted.

<sup>3</sup> Estimate includes the enrichment of the income threshold for senior couples to \$24,300 proposed in the 2008 Ontario Budget.

## PERSONAL INCOME TAX — DESCRIPTION OF TAX PROVISIONS

The following Personal Income Tax provisions have been introduced or changed since the 2007 *Transparency in Taxation* report.

### Ontario Non-refundable Tax Credits

The non-refundable tax credits listed in the following table are based on amounts that are adjusted for inflation each year.

Amounts on Which Indexed Non-refundable Tax Credits Are Based for 2008 (\$)	Table 2
<b>Non-Refundable Tax Credits</b>	
Adoption Expense Credit, maximum claim	10,591
Age Credit, maximum claim	4,239
Reduced by 15 per cent of individual's net income in excess of \$31,554	
Fully phased out when individual's net income reaches \$59,814	
Basic Personal Credit	8,681
Caregiver Credit, maximum claim	4,092
Reduced by dependant's net income in excess of \$13,999	
Fully phased out when dependant's net income reaches \$18,091	
Disability Credit	7,014
Disability supplement for individuals under 18 years of age, maximum claim	4,091
Eligible Dependant Credit, maximum claim	7,371
Reduced by dependant's net income in excess of \$737	
Fully phased out when dependant's net income reaches \$8,108	
Infirm Dependant Credit, maximum claim	4,091
Reduced by dependant's net income in excess of \$5,817	
Fully phased out when dependant's net income reaches \$9,908	
Medical Expense Credit	
Qualifying medical expenses of self, spouse or common-law partner, and dependent children in excess of the lesser of three per cent of net income and \$1,965	no limit
Qualifying medical expenses of other dependants in excess of the lesser of three per cent of the dependant's net income and \$1,965, maximum claim for each	10,591
Pension Income Credit, maximum claim	1,201
Spouse or Common-law Partner Credit, maximum claim	7,371
Reduced by spouse's or common-law partner's net income in excess of \$737	
Fully phased out when spouse or common-law partner's net income reaches \$8,108	
Tuition and Education Credits	
Education Credit, full time or eligible for Disability Credit (per month)	468
Education Credit, part time (per month)	140
Maximum transfer	6,003

**Medical Expense Credit** — Tax filers may claim 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. For 2008, the credit is calculated as 6.05 per cent of eligible expenses in excess of the lesser of \$1,965 and three per cent of the individual's net income for the year. In addition, up to \$10,591 of qualifying medical expenses paid on behalf of other dependent relatives may be claimed to the extent that they exceed the lesser of \$1,965 and three per cent of the dependant's net income. Beginning with 2008, the list of expenses eligible for the credit will be expanded. This change parallels the 2008 federal budget initiative.

## **Employee Ownership and Ontario Labour Sponsored Investment Fund Tax Credits**

**Labour Sponsored Investment Fund (LSIF) Tax Credit** — LSIFs are venture capital corporations designed to provide capital to small and medium-sized Ontario businesses. Investors qualify for a 15 per cent non-refundable tax credit on investment up to a certain maximum. As announced in the *2007 Ontario Economic Outlook and Fiscal Review*, effective January 1, 2007, the maximum annual eligible investment that qualifies for the LSIF tax credit increased from \$5,000 to \$7,500. In addition, the phase-out of the LSIF tax credit was delayed by one year to the end of 2011.

**Research Oriented Investment Fund (ROIF) Tax Credit** — Where an LSIF qualifies as a ROIF, investors receive an additional five per cent non-refundable tax credit. Effective January 1, 2007, the maximum annual eligible investment that qualifies for the ROIF tax credit increased from \$5,000 to \$7,500. In addition, the phase-out of the ROIF tax credit was delayed by one year to the end of 2011.

## **Ontario Refundable Tax Credits**

**Ontario Property and Sales Tax Credits (OTCs)** — The refundable OTCs may be claimed by low- and moderate-income tax filers to offset the cost of provincial property and retail sales taxes. The Property Tax Credit is calculated as the lesser of occupancy cost and a basic property tax credit amount (\$250 for non-senior single individuals or couples, or \$625 for senior single individuals or couples), plus 10 per cent of occupancy cost. Occupancy cost is equal to property tax paid or 20 per cent of rent paid on an individual's principal residence plus \$25 if residing in a student residence. 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. For non-seniors, the OTCs are jointly reduced by two per cent of adjusted family net income in excess of \$4,000; for single seniors the credits are jointly reduced by four per cent of family net income in excess of \$22,000. For senior couples, the 2008 Ontario Budget proposed that the credits be jointly reduced by four per cent of family net income in excess of \$24,300. The maximum OTCs are \$1,000 for non-seniors and \$1,125 for seniors.

The estimate includes the increase to the income threshold for senior couples proposed in the 2008 Budget.

## **Exemptions, Deductions, Deferrals and Other Measures Shared with the Federal Government**

### **Employment**

**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. Beginning in 2008, the residency deduction will increase by 10 per cent. This change parallels the 2008 federal budget initiative.

### **Investment**

#### *Item for Which an Estimate is not Available*

**Exemption for Capital Gains Arising from Certain Donations** — Capital gains on gifts of publicly listed securities to a qualified donee are exempt from tax. In addition, capital gains on gifts of ecologically sensitive land to a qualified donee (other than a private foundation) are exempt from tax, as are capital gains on certain objects certified as being of cultural importance to Canada that are donated to a designated museum or art gallery. In certain circumstances, the capital gains exemption applies to gains from securities exchanged for publicly listed securities that are then donated to a qualified donee after February 25, 2008. Extending the exemption to exchanged securities parallels the 2008 federal budget initiative.

### **Tax-Deferred Savings**

#### *Item for Which an Estimate is not Available*

**Registered Disability Savings Plans (RDSPs) – Non-taxation of Investment Income and Federal Contributions** — In its 2007 budget, the federal government introduced RDSPs to help parents and others save for the future needs of persons with severe disabilities. Investment income on contributions to RDSPs and federal assistance will accumulate tax-free in the plans, and contributions will not be included in income for tax purposes when they are withdrawn. Only the portion of withdrawals from an RDSP that relates to federal assistance and investment income will be included in the income of the person with a disability. Individuals benefit from a deferral of tax on investment income and federal contributions until funds are withdrawn from these plans. This provision parallels the 2007 federal budget initiative.

**Registered Education Savings Plans (RESPs) – Non-taxation of Investment Income and Federal Contributions** — Individuals may contribute to RESPs on behalf of designated children. Federal assistance and investment income accrued within the plans are not taxed until withdrawn for the postsecondary education of the named beneficiaries. Beginning in 2008, the maximum contribution period and the maximum lifespan of an RESP, as well as the contribution age limit for a beneficiary of a family plan, will be extended by 10 years. This extension parallels the 2008 federal budget initiative.

## CORPORATE TAX

Estimates of tax provisions relating to the Ontario Corporate Income Tax, Capital Tax and Mining Tax systems are presented in Table 3.

<b>Corporate Tax</b>	<b>Table 3</b>
<b>Tax Provisions</b>	<b>2008 Estimates<sup>1</sup></b> <b>(\$ Millions)</b>
<b>Corporate Income Tax</b>	
<b>Ontario Refundable Tax Credits</b>	
Apprenticeship Training Tax Credit <sup>2</sup>	70
Co-operative Education Tax Credit <sup>2</sup>	10
Ontario Book Publishing Tax Credit	2
Ontario Business Research Institute Tax Credit	7
Ontario Computer Animation and Special Effects Tax Credit	15
Ontario Film and Television Tax Credit	135
Ontario Innovation Tax Credit	215
Ontario Interactive Digital Media Tax Credit	13
Ontario Production Services Tax Credit	33
Ontario Sound Recording Tax Credit	1
<b>Ontario Deductions and Exemptions</b>	
Additional Deduction for Credit Unions	5
Manufacturing and Processing (M&P) and Resource Sector Credit	245
Non-taxation of the Federal Investment Tax Credit <sup>3,4</sup>	250
Ontario Current Cost Adjustment <sup>3</sup>	2
Ontario Depletion Allowance <sup>3</sup>	9
Ontario New Technology Tax Incentive <sup>3</sup>	s
Ontario Political Contributions <sup>3</sup>	6
Ontario Resource Allowance <sup>3,5,6</sup>	120
Ontario Tax Exemption for Commercialization *	s
Small Business Deduction <sup>7</sup>	1,125

\* The estimated cumulative impact of this proposed provision in the *Ideas for the Future Act, 2008*, if passed, is \$7 million over the period 2008–09 to 2010–11. The *Ideas for the Future Act, 2008* is before the Ontario legislature as of October 22, 2008.

<b>Corporate Tax</b>	<b>Table 3</b>
<b>Tax Provisions</b>	<b>2008 Estimates<sup>1</sup></b> <b>(\$ Millions)</b>
<b>Exemptions, Deductions, Deferrals and Other Measures Shared with the Federal Government</b>	
Allowable Business Investment Losses <sup>8,9</sup>	3
Deductibility of Charitable Donations <sup>8</sup>	95
Deductibility of Gifts to the Crown <sup>8</sup>	s
Deductibility of Gifts of Cultural Property and Ecologically Sensitive Land <sup>8</sup>	3
Deferral of Income for Farmers <sup>8</sup>	s
Holdback on Progress Payments to Contractors <sup>8</sup>	15
Non-taxation of Non-profit Organizations <sup>8</sup>	150
Partial Inclusion of Capital Gains <sup>8</sup>	1,360
<i>Items for Which an Estimate is not Available</i>	
Accelerated Write-off of Capital Assets and Resource-related Expenditures	
Temporary Incentive for Manufacturing and Processing (M&P) Machinery & Equipment <sup>10</sup>	
Cash-basis 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	
Donations of Medicine for the Developing World	
Exemption for Capital Gains Arising from Certain Donations	
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	
<b>Capital Tax<sup>11</sup></b>	
Capital Tax Deduction	460
Deferred Mining Exploration and Development Expenses <sup>12</sup>	s
Deferred Ontario New Technology Tax Incentive (ONTTI) and Scientific Research and Experimental Development (SR&ED) Costs <sup>12</sup>	s
Exemption for Family Farm Corporations, Family Fishing Corporations, Credit Unions and Other Specified Entities	s
Small Business Investment Tax Credit for Financial Institutions	20
<i>Item for Which an Estimate is not Available</i>	
Renounced Mining Expenses	

**Corporate Tax****Table 3****Tax Provisions****2008 Estimates<sup>1</sup>  
(\$ Millions)****Mining Tax<sup>13</sup>**

Mining Tax Exemption	s
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	44
<i>Item for Which an Estimate is not Available</i>	
Fast Write-off of Exploration Costs	

<sup>1</sup> Estimates are forecast to the 2008 calendar year based on preliminary 2006 and 2007 Ontario tax administration data, unless otherwise noted. Estimates do not include the revenue forgone from Corporate Income Tax provisions for mutual fund corporations.

<sup>2</sup> Estimates include the impact of both the Corporate and Personal Income Tax provisions.

<sup>3</sup> These Ontario differences from the federal definition of taxable income do not apply for taxation years ending after 2008.

<sup>4</sup> For taxation years ending after 2008, a 4.5 per cent non-refundable tax credit has been enacted to replace this provision.

<sup>5</sup> The resource allowance applies to the mining and oil and gas sectors. The estimate is not net of mining taxes and Crown royalties paid.

<sup>6</sup> For taxation years ending after 2008, a tax credit/debit mechanism has been enacted to replace this provision.

<sup>7</sup> Estimate includes the impact of the Small Business Deduction phase-out.

<sup>8</sup> Estimates are based on assessed 2006 federal tax administration data and forecast to 2008.

<sup>9</sup> Estimate could overstate the 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.

<sup>10</sup> The 2008 cash flow impact of this provision, based on the 2008 Ontario Budget estimate and adjusted to a calendar-year basis, is \$195 million.

<sup>11</sup> Ontario has legislated a plan to eliminate the Capital Tax effective July 1, 2010.

<sup>12</sup> These provisions do not apply for taxation years ending after 2008.

<sup>13</sup> Estimates are forecast to the 2008 calendar year based on preliminary 2007 Ontario Mining Tax administration data.

## **CORPORATE TAX — DESCRIPTION OF TAX PROVISIONS**

The following Corporate Income Tax provisions have changed since the 2007 *Transparency in Taxation* report.

### **Corporate Income Tax**

#### **Ontario Refundable Tax Credits**

**Ontario Film and Television Tax Credit** — A refundable tax credit on labour expenses is available to corporations for certified domestic film and television productions in Ontario. As announced in the 2007 *Ontario Economic Outlook and Fiscal Review*, effective for labour expenses incurred after December 31, 2007 and before January 1, 2010, the tax credit rate is increased from 30 per cent to 35 per cent. First-time producers are eligible for a 40 per cent credit on the first \$240,000 of eligible labour expenses. A 10 per cent regional bonus credit is available where certain production activities occur outside the Greater Toronto Area.

**Ontario Innovation Tax Credit** — A 10 per cent refundable tax credit is available to small corporations with qualifying Scientific Research and Experimental Development (SR&ED) expenditures in Ontario. The 2008 Ontario Budget proposed to increase the expenditure limit from \$2 million to \$3 million and extend the taxable income phase-out range of between \$400,000 and \$600,000 to a new upper limit of \$700,000. These enhancements would parallel the effective dates and phase-in rules of the federal SR&ED tax credit enhancements announced in the 2008 federal budget.

**Ontario Interactive Digital Media Tax Credit** — A refundable tax credit is available for the creation, marketing and distribution of interactive digital media products. As announced in the 2008 Ontario Budget, the tax credit rate increased from 20 per cent to 25 per cent for qualifying expenditures incurred after March 25, 2008, and before January 1, 2012. The 2008 Ontario Budget also extended the enhanced 30 per cent tax credit rate available to small and medium-sized corporations that develop their own products for two years, to qualifying expenditures incurred before January 1, 2012.

**Ontario Production Services Tax Credit** — A refundable tax credit on labour expenses is available to corporations for qualifying foreign film and television production services and non-certified domestic film and television productions in Ontario. As announced in the 2007 *Ontario Economic Outlook and Fiscal Review*, effective for labour expenses incurred after December 31, 2007 and before January 1, 2010, the tax credit rate is increased from 18 per cent to 25 per cent.

## Ontario Deductions and Exemptions

**Ontario Tax Exemption for Commercialization** — The *Ideas for the Future Act, 2008*, if passed, would provide new corporations established after March 24, 2008 and before March 25, 2012, that commercialize intellectual property developed at qualifying Canadian universities, colleges or research institutes, with a refund of Corporate Income Tax paid in their first 10 taxation years. This measure was proposed in the 2008 Ontario Budget.

**Small Business Deduction** — Canadian-controlled private corporations are eligible for a reduced corporate income tax rate of 5.5 per cent on the first \$500,000 of active business income. The benefit of the lower rate is phased out as taxable income rises to \$1.5 million. As announced in the *2007 Ontario Economic Outlook and Fiscal Review*, the active business income level was increased from \$400,000 to \$500,000 and the taxable income level was increased from \$1,128,519 to \$1.5 million, effective January 1, 2007.

## Exemptions, Deductions, Deferrals and Other Measures Shared with the Federal Government *Items for Which an Estimate is not Available*

**Temporary Incentive for Manufacturing and Processing (M&P) Machinery and Equipment** — The 2008 Ontario Budget proposed to extend this incentive by allowing eligible assets acquired in 2009 to be depreciated on a 50 per cent straight-line basis and those assets acquired in 2010 and 2011 on a declining balance basis. This parallels the 2008 federal budget initiative.

**Donations of Medicine for the Developing World** — Corporations that make donations of medicine from their inventory may claim an additional charitable deduction equal to the lesser of 50 per cent of the difference between the value of the donated medicine and its cost, and the cost of the medicine. For donations after June 30, 2008, the definition of an eligible charity is changed to a registered charity that, in the opinion of the federal Minister of International Cooperation, meets conditions prescribed by regulation. The definition change parallels the 2008 federal budget measure.

**Exemption for Capital Gains Arising from Certain Donations** — Capital gains on gifts of publicly listed securities to a qualified donee are exempt from tax. In addition, capital gains on gifts of ecologically sensitive land to a qualified donee (other than a private foundation) are exempt from tax, as are capital gains on certain objects certified as being of cultural importance to Canada that are donated to a designated museum or art gallery. In certain circumstances, the capital gains exemption applies to gains from securities exchanged for publicly listed securities that are then donated to a qualified donee after February 25, 2008. Extending the exemption to exchanged securities parallels the 2008 federal budget initiative.

## SALES AND COMMODITY TAX

Estimates of tax provisions relating to sales and commodity taxes, including the Fuel Tax, Gasoline Tax, Land Transfer Tax, Retail Sales Tax and Tobacco Tax, are presented in Table 4.

Sales and Commodity Tax	Table 4
Tax Provisions	2008 Estimates <sup>1</sup> (\$ Millions)
<b>Fuel Tax</b>	
<b>Exemptions/Reduced Rates</b>	
Exemption for Biodiesel <sup>2</sup>	s
Exemption for Coloured Fuel <sup>3</sup>	410
Reduced Rate for Railway Diesel <sup>4</sup>	60
<b>Refunds</b>	
Auxiliary Power Take-off Equipment <sup>5</sup>	6
<b>Gasoline Tax</b>	
<b>Exemptions/Reduced Rates</b>	
Exemption for Methanol and Natural Gas	9
Reduced Rate for Aviation Fuel <sup>6</sup>	300
Reduced Rate for Propane <sup>6</sup>	7
<b>Refunds</b>	
Auxiliary Power Take-off Equipment <sup>5</sup>	s
Aviation Fuel <sup>5</sup>	s
Tax-exempt Use in Unlicensed Equipment <sup>5</sup>	4
<b>Land Transfer Tax</b>	
<b>Exemptions</b>	
Deferrals and Exemptions for Corporate Reorganizations <sup>5</sup>	85
Family Business Conveyances <sup>5</sup>	s
Family Farms <sup>7</sup>	6
Life Leases <sup>3</sup>	s
<i>Items for Which an Estimate is not Available</i>	
Hospital Restructuring	
Oil/Pipeline Easements and Mineral Lands	
Other Transfers and Dispositions	

**Sales and Commodity Tax**

Table 4

**Tax Provisions****2008 Estimates<sup>1</sup>**  
**(\$ Millions)****Refunds**Refund for First-time Home Buyers<sup>5</sup> 115**Retail Sales Tax****Exemptions/Reduced Rates**25¢ Coin Pay Phone Calls<sup>7</sup> s

Agricultural Goods 270

Audio Books Purchased for Use by Persons Who Are Legally Blind<sup>7</sup> 5Automobile Insurance Premiums<sup>7,8</sup> 820

Basic Groceries 1,715

Books, Newspapers and Magazines Sold by Subscription 410

Children's Car Seats and Booster Seats<sup>7</sup> 5

Children's Clothing 140

Commercial and State Aircraft, Vessels Greater than 1,400 Cubic Metres and Commercial  
Vessels of 1,400 Cubic Metres or Less 165Custom Software<sup>9</sup> 100Donations to Schools, Colleges and Universities<sup>7</sup> 7Educational CDs and DVDs<sup>7</sup> 4

Energy 5,290

Feminine Hygiene Products<sup>7</sup> 21

Footwear Sold for \$30 or Less 31

Goods Purchased for Use by Fishers and Fur-trappers s

Individual Life and Health Insurance Premiums<sup>10</sup> 480

Mobile Homes s

Municipal Fire-fighting Equipment 2

Nicotine Replacement Therapies<sup>11</sup> 5Prepared Foods Sold for \$4 or Less<sup>7</sup> 245

Prescription Drugs and Medical Supplies 1,065

Production Machinery and Equipment 685

Religious Equipment and Publications 12

Repairs and Replacements Performed Under Warranty<sup>7,8</sup> 155

Seedlings s

Services 11,065

Temporary Exemption for Bicycles and Related Safety Equipment<sup>7</sup> 16Temporary Exemption for Destination Marketing Fees<sup>7</sup> 2

**Sales and Commodity Tax**
**Table 4**

Tax Provisions	2008 Estimates <sup>1</sup> (\$ Millions)
Temporary Exemption for Energy Star® Household Products <sup>7</sup>	55
Toll-free Telephone Services <sup>7</sup>	50
Transient Accommodation <sup>12</sup>	120
University Research Equipment	7
<i>Items for Which an Estimate is not Available</i>	
Admissions <sup>13</sup>	
Modular Homes	
Municipal, Hospital Restructuring	
Used Adult Clothing or Footwear Sold for \$50 or Less by Religious, Charitable, Benevolent and Non-profit Organizations	
Works of Art Purchased by Museums and Art Galleries	
<b>Credits/Rebates</b>	
Rebate for Alternative Fuel Vehicles <sup>5</sup>	6
Rebate for Building Materials for Religious, Charitable and Benevolent Organizations <sup>5</sup>	20
Tax Credit for Fuel Conservation <sup>7</sup>	7
Temporary Rebate for Solar Energy, Wind Energy, Micro Hydro-electric and Geothermal Energy Systems <sup>5</sup>	1
Vendor Compensation <sup>14</sup>	110
<b>Tobacco Tax</b>	
Compensation for Tax Collectors <sup>14</sup>	s

<sup>1</sup> Estimates are forecast to the 2008 calendar year based on preliminary 2004 provincial Input–Output tables from Statistics Canada, unless otherwise noted.

<sup>2</sup> Based on estimated amount of biodiesel sold in Ontario.

<sup>3</sup> Based on best tax administration data currently available.

<sup>4</sup> Forgone revenue estimated as difference from the general fuel tax rate.

<sup>5</sup> Based on refunds filed or rebates/deferrals claimed.

<sup>6</sup> Forgone revenue estimated as difference from the general gasoline tax rate.

<sup>7</sup> Based on the best information currently available from a variety of sources, such as industry data and Statistics Canada surveys, projected to 2008.

<sup>8</sup> Estimates assume items would be taxed at eight per cent general RST rate.

<sup>9</sup> Based on Statistics Canada Computer Software and Related Services Industry Revenue Profile.

<sup>10</sup> Based on insurance premiums data provided by the Canadian Life and Health Insurance Association Inc.

<sup>11</sup> Based on Statistics Canada CANSIM Table 105-0055: Smoking Cessation Aids.

<sup>12</sup> Transient accommodation is taxed at a reduced rate of five per cent. Forgone revenue estimated as difference from the general RST rate of eight per cent.

<sup>13</sup> Includes the exemption for admissions to live theatres with 3,200 seats or less, which is estimated to cost \$18 million per year. There are currently no data available to the Ministry of Finance for the cost of other admissions exemptions of general application.

<sup>14</sup> Based on returns filed by registered tax collectors.

## **SALES AND COMMODITY TAX — DESCRIPTION OF TAX PROVISIONS**

The following Sales and Commodity Tax provisions have changed since the 2007 *Transparency in Taxation* report.

### **Land Transfer Tax (LTT)**

#### **Exemptions**

**Family Farms** — The 2008 Ontario Budget announced the expansion of the LTT exemption for conveyances of farmed land to include conveyances from family farm corporations to individual family members after March 25, 2008.

#### **Refunds**

**Refund for First-time Home Buyers** — The 2007 *Ontario Economic Outlook and Fiscal Review* announced the expansion of the refund program to include the purchase of resale homes. The maximum amount of the refund is \$2,000 and the expansion is effective for agreements of purchase and sale entered into after December 13, 2007.

### **Retail Sales Tax (RST)**

#### **Exemptions/Reduced Rates**

**Books, Newspapers and Magazines Sold by Subscription** — As announced in December 2007 and noted in the 2008 Ontario Budget, the definition of “newspaper” is being expanded to enable publications with smaller circulation or less frequent publishing schedules, such as community and ethnic newspapers, to qualify for the RST exemption for newspapers. The expanded definition will be retroactive to January 1, 2000 once the regulation is finalized.

**Nicotine Replacement Therapies** — The 2008 Ontario Budget made permanent the RST exemption for nicotine replacement therapies registered with a Health Canada Drug Identification Number or Natural Product Number.

**Temporary Exemption for Bicycles and Related Safety Equipment** — The 2008 Ontario Budget extended the temporary RST exemption for bicycles costing \$1,000 or less and related bicycle safety equipment to purchases made on or before December 31, 2010.

**Temporary Exemption for Destination Marketing Fees** — The 2008 Ontario Budget extended this exemption by two years. Destination marketing fees charged on transient accommodation are temporarily exempt from RST until June 30, 2010.

**Temporary Exemption for Energy Star® Household Products** — The 2008 Ontario Budget extended the temporary RST exemption for eligible Energy Star® qualified household appliances and light bulbs to purchases made on or before August 31, 2009 (with delivery of appliances on or before September 30, 2009).

*Items for Which an Estimate is not Available*

**Admissions** — A number of RST exemptions are available for admissions. The 2008 Ontario Budget made permanent the RST exemption on admissions to live theatres with not more than 3,200 seats that present live dramatic, comedic, choreographic or musical performances, including a live theatrical play and a live ballet, orchestral or operatic performance.

## EDUCATION PROPERTY TAX

Table 5 provides estimates of tax provisions relating to the Education Property Tax system.

Education Property Tax <sup>1</sup>	Table 5
Tax Provisions	2008 Estimates <sup>2</sup> (\$ Millions)
Brownfields Financial Tax Incentive Program <sup>3</sup>	s
Charity Rebate	7
Conservation Land Property Tax Exemption Program	2
Eligible Convention Centres Exemption	s
Eligible Live Performance Theatres Exemption and Professional Sports Facility Tax Rate Reduction	13
Farm Property Class Tax Rate Reduction	65
Farmlands Awaiting Development Sub-class Tax Rate Reduction	s
Heritage Property Tax Rebate	s
Managed Forest Tax Incentive Program	3
Seniors and Persons with Disabilities Property Tax Relief <sup>4</sup>	s
Tax Exemptions Under Private Statutes	6
Vacant Commercial and Industrial Unit Rebate	31
Vacant Land and Excess Land Sub-class Tax Rate Reduction	48
<i>Items for Which an Estimate is not Available</i>	
Other Tax Exemptions Under Public Statutes	
Discretionary exemptions granted by municipalities to special purpose properties (e.g., legions, navy leagues, public-private capital facilities)	
Mandatory exemptions granted to special purpose/institutional properties (e.g., places of worship, cemeteries, Boy Scouts Association of Canada and Canadian Girl Guides Association, charitable institutions including Canadian Red Cross, St. John Ambulance and charitable, non-profit philanthropic corporations organized for the relief of the poor)	
Relief from Property Taxes That are Unduly Burdensome for Residential, Farm or Managed Forest Properties	

<sup>1</sup> Expenditures related to provincial land taxes or payments made in lieu of taxes have not been included.

<sup>2</sup> Estimates based on 2008 education tax rates, 2008 Assessment Roll, 2006 Municipal Financial Information Returns and municipal tax policies.

<sup>3</sup> Effective October 1, 2004, municipalities may pass bylaws cancelling municipal property taxes on eligible brownfields properties. The Province may match the municipal reduction with an education property tax reduction.

<sup>4</sup> Estimate does not include expenditures due to the exemption from taxation on 10 per cent 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.

## EMPLOYER HEALTH TAX

Table 6 provides an estimate of the tax exemption under the Employer Health Tax.

<b>Employer Health Tax (EHT)</b>	<b>Table 6</b>
<b>Tax Provision</b>	<b>2008 Estimate (\$ Millions)</b>
\$400,000 Exemption for Private-sector Employers <sup>1</sup>	725

<sup>1</sup> Estimate is based on 2006 remuneration data forecast to represent the 2008 taxation year.

## ESTATE ADMINISTRATION TAX

Table 7 provides an estimate of the exemption under the Estate Administration Tax.

<b>Estate Administration Tax</b>	<b>Table 7</b>
<b>Tax Provision</b>	<b>2008 Estimate (\$ Millions)</b>
Exemption Where the Value of the Estate Does Not Exceed \$1,000	s

## GROSS REVENUE CHARGE

Table 8 provides an estimate of the tax provision under the Gross Revenue Charge.

<b>Gross Revenue Charge (GRC)<sup>1</sup></b>	<b>Table 8</b>
<b>Tax Provision</b>	<b>2008 Estimate (\$ Millions)</b>
Gross Revenue Charge 10-year Holiday	s

<sup>1</sup> Expenditure does not include the provincial water rental portion of the GRC.