

COMPREHENSIVE TAX REFORM PACKAGE

March 26, 2009

To build Ontario's economy for the future, the McGuinty government is proposing a comprehensive tax reform package that would modernize its tax system and make Ontario an even better place to live, work and do business.

Comprehensive tax reform is the single most important thing the government can do to create jobs and position the economy for future growth. It would provide a lifeline to thousands of businesses today and would position the economy for rapid growth as Ontario emerges strongly from the economic downturn. Reforming Ontario's tax system is the essential next step in the McGuinty government's plan to build Ontario's future economy, which would improve the quality of life for all Ontarians.

SALES TAX REFORM

It is proposed that, starting July 1, 2010, Ontario would move to a single, value-added sales tax that would be federally administered. The single sales tax would have a combined rate of 13 per cent. The provincial portion would be eight per cent – the same as the general RST rate – and the federal portion would be five per cent.

More than 130 countries, along with four Canadian provinces, have adopted a value-added tax. Among the 30 developed countries in the Organisation for Economic Co-operation and Development (OECD), only the United States does not have a value-added tax. Implementation of a single sales tax would bring Ontario into line with what is viewed as the most efficient form of sales taxation around the world.

When the proposed corporate income tax rate cuts and the single sales tax are fully phased in, the marginal effective tax rate on new capital investments in Ontario would be cut in half.

A single sales tax would also reduce paperwork costs for business by more than \$500 million a year.

The government is proposing a number of made-in-Ontario components to meet the province's unique requirements:

- Books, children's clothing and footwear, diapers, children's car seats and car booster seats, and feminine hygiene products would be exempt from the eight per cent provincial portion of the tax
- Purchasers of newly constructed homes under \$400,000 would not be subject to an additional tax burden. Buyers of new homes valued between \$400,000 and \$500,000 could also claim a proportional rebate. The proposed provincial rebate rate would be twice as generous as the GST housing rebate rate
- To help small businesses make the transition to a single sales tax, the government would provide up to \$400 million in one-time sales tax credits to help make changes to point-of-sale and accounting systems
- Under the single sales tax, the provincial portion of the tax rate on transient accommodation, such as hotel rooms, would rise from five per cent to eight per cent. Approximately \$40 million a year would be allocated to support destination marketing in Ontario tourism regions once these are established.

TAX RELIEF FOR PEOPLE

Sales Tax Transition Benefit

As part of the proposed sales tax reform, \$4 billion in cash payments would be provided to Ontarians to support the transition to the new sales tax system.

Benefits would be delivered to eligible Ontario tax filers aged 18 and over in each of June 2010, December 2010 and June 2011. The McGuinty government would provide eligible families with an income of less than \$160,000 with three payments totalling \$1,000 to help them adjust to the new single sales tax. Eligible individuals who earn less than \$80,000 would get three payments totalling \$300.

To qualify for the two benefits in 2010, a 2009 tax return would have to be filed, and a 2010 tax return would have to be filed for the June 2011 benefit amount.

About 6.5 million families and individuals in Ontario would receive sales tax transition benefits.

Ontario Sales Tax Transition Benefit				
Payment Month	Single Individuals		Single Parents or Couples	
	Maximum Benefit	Phase-out Range	Maximum Benefit	Phase-out Range
June 2010	\$100	\$80,000-\$82,000	\$330	\$160,000-\$166,600
December 2010	\$100	\$80,000-\$82,000	\$335	\$160,000-\$166,700
June 2011	\$100	\$80,000-\$82,000	\$335	\$160,000-\$166,700
Total	\$300		\$1,000	

Personal Income Tax Relief

The government is proposing to provide more than \$1.1 billion annually in broadly based personal income tax relief by cutting the first tax rate by one percentage point, from 6.05 per cent to 5.05 per cent, effective January 1, 2010. As a result, Ontarians would benefit from the lowest provincial tax rate in Canada on the first \$36,848 of taxable income; 93 per cent of Ontario taxpayers would pay less personal income tax.

Ontario Personal Income Tax Rates (%)		
Taxable Income¹	Current (2009)	Proposed (2010)
\$0–\$36,848	6.05	5.05
\$36,848–\$73,698	9.15	9.15
> \$73,698	11.16	11.16

¹ Taxable income thresholds would be adjusted in 2010 and future years to reflect Ontario inflation.

The Ontario Tax Reduction (OTR) is an additional reduction in personal income tax of up to \$205 per tax filer and \$379 per child or disabled or infirm dependant. Leaving these parameters in place while reducing the first bracket rate would increase the tax relief provided by the OTR.

Approximately 90,000 lower-income taxpayers would no longer pay Ontario personal income tax, and about 725,000 additional taxpayers with lower incomes would have their personal income tax further reduced by the Ontario Tax Reduction.

Sales Tax and Property Tax Relief

The government is proposing to increase the amount of ongoing sales tax and property tax relief for individuals and families with low to middle incomes by more than \$1 billion a year. The current combined sales and property tax credit would be replaced with two new credits.

Ontario Sales Tax Credit

The new Ontario Sales Tax Credit would provide timely annual tax relief of up to \$260 for each adult and child in low- and middle-income families. It would be reduced by four per cent of adjusted family net income over \$20,000 for single people and over \$25,000 for families. The sales tax credit would be refundable and paid quarterly, starting July 2010.

Approximately 2.9 million families and individuals would benefit from the Ontario Sales Tax Credit.

Ontario Property Tax Credit

The new Ontario Property Tax Credit would be based on occupancy cost – property tax paid or 20 per cent of rent paid. A credit would be provided for occupancy cost of up to \$250 for non-seniors or \$625 for seniors, plus 10 per cent of occupancy cost. The credit would not exceed occupancy cost and would be subject to a maximum of \$900 for non-seniors and \$1,025 for seniors.

It would be adjusted by two per cent of adjusted family net income over \$20,000 for single people and over \$25,000 for families. The property tax credit would be refundable and claimed on the personal income tax return, beginning with the 2010 return.

Approximately 2.3 million families and individuals would benefit from the Ontario Property Tax Credit.

TAX CUTS FOR BUSINESS

The Budget is proposing \$4.5 billion of business tax relief over three years that would lower business costs, enhance Ontario's competitiveness and support growing small businesses. These measures would support the government's five-point economic plan and build on the tax relief already in place, such as the elimination of Capital Tax in 2010. Starting July 1, 2010, the government would:

- Cut the general Corporate Income Tax (CIT) rate from 14 per cent to 12 per cent and reduce the rate to 10 per cent by 2013
- Cut the CIT rate for small businesses from 5.5 per cent to 4.5 per cent
- Cut the CIT rate for manufacturing and processing – helping businesses including farming, fishing, mining and logging – by 16.7 per cent, from 12 per cent to 10 per cent
- Eliminate the CIT small business deduction surtax, making Ontario the only Canadian jurisdiction that would eliminate this barrier to growing small businesses
- Exempt more small and medium-sized businesses from the Corporate Minimum Tax and cut the CMT rate from four per cent to 2.7 per cent.

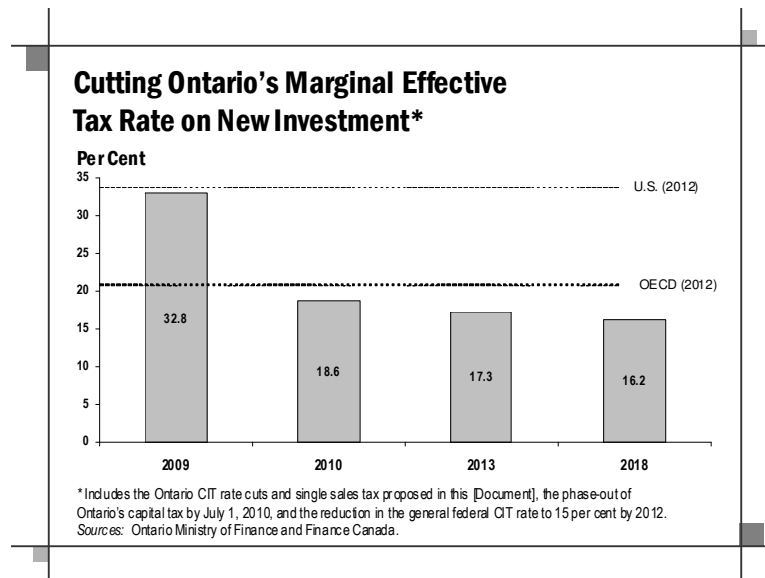
Ontario's Proposed Corporate Income Tax Rate Cut Plan				
Date	Rates (Per Cent)			
	General	M&P¹	Small Business²	Small Business Deduction Surtax³
Current	14	12	5.5	4.25
July 1, 2010	12	10	4.5	0
July 1, 2011	11.5	10	4.5	0
July 1, 2012	11	10	4.5	0
July 1, 2013	10	10	4.5	0

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

When the proposed Ontario CIT rate cuts are fully implemented, Ontario's combined federal-provincial CIT rate of 25 per cent would be lower than the current average OECD corporate tax rate of 26.7 per cent.

Compared to the U.S. Great Lakes states – key competitors for jobs and investment – Ontario's combined rate would be 15 percentage points lower than the average federal-state general CIT rate and more than 11 percentage points lower than the average combined manufacturing rate.

When fully phased in, the proposed Ontario CIT rate reductions together with the conversion of the RST into the single sales tax would cut Ontario's marginal effective tax rate on new capital investment in half. This would make Ontario one of the most competitive jurisdictions in the industrialized world in terms of the taxation of new capital investment by corporations.



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