

# Tax and Benefit Related Measures

The 2014 Ontario Budget reintroduced on July 14 included a number of proposed tax and benefit related changes. Some of these changes were included in Bill 14, Building Opportunity and Securing Our Future Act (Budget Measures), 2014 and Bill 26, Taxation Amendment Act, 2014, which both received Royal Assent on July 24, 2014. This publication has been updated to reflect legislative and regulatory changes made up to October 9, 2014.

This publication provides general information only and is not a substitute for the legislation.

## Income Tax Changes for People

### Personal Income Tax Rate Changes

The amendments to the Taxation Act, 2007 enacted earlier this year have:

- Lowered the taxable income threshold for the 13.16 per cent tax rate from \$514,090 to \$220,000, and
- Added a new tax rate of 12.16 per cent on taxable income between \$150,000 and \$220,000.

The changes apply to taxation years ending after December 31, 2013. The new taxable income thresholds will not be adjusted for inflation in future years.

### Dividend Tax Credit Changes

To mitigate the impact of the federal changes announced in the 2013 federal budget and improve the fairness of the taxation of dividends, the Province proposed measures in the 2013 Ontario Economic Outlook and Fiscal Review that would change the dividend tax credit rates and the surtax calculation, starting in 2014. These measures have now been enacted.

The changes in the Taxation Act, 2007 to the calculation of the surtax with respect to dividend tax credits result in these credits having the same value for all taxpayers, regardless of their incomes. The tax credit rates for non-eligible and eligible dividends are set at 4.5 per cent and 10 per cent, respectively.

## **Tax Changes for Business**

### **Small Business Deduction**

The amendments to the Taxation Act, 2007 also phase out the Small Business Deduction (SBD) for large Canadian controlled private corporations (CCPCs). The SBD is intended to provide tax relief to small businesses in the province which they can use to invest, grow and create jobs. Previously, the SBD was available to all CCPCs regardless of their size.

Like the federal SBD phase-out, the Ontario SBD is phased out where a CCPC's taxable capital is between \$10 million and \$15 million. CCPCs with taxable capital of \$15 million or more are no longer eligible for the preferential corporate income tax rate of 4.5 per cent on the first \$500,000 of active business income. Phasing out the preferential tax rate for large CCPCs refocuses the benefit of the SBD to small businesses.

The changes apply for taxation years ending after May 1, 2014 and are pro-rated for taxation years straddling this date.

### **Tax on Aviation Fuel**

Aviation fuel was taxed at a rate of 2.7 cents per litre since 1992 to up to and including August 31, 2014. Effective September 1, 2014, aviation fuel is taxed at a rate of 3.7 cents per litre.

The Gasoline Tax Act was amended to increase the tax rate on aviation fuel by one cent per litre each year for four years, beginning in 2014. The one cent per litre rate increase for 2014 took effect September 1, 2014. Subsequent rate increases of one cent per litre in 2015, 2016 and 2017 will be effective April 1 of each respective year. Upon full implementation, the tax rate will be 6.7 cents per litre.

The Gasoline Tax Act was also amended to provide the Minister of Finance with the authority to require the completion of an inventory report, and to make regulations in respect of the inventory requirement and transitional matters.

### **Registration Requirements for Certain Road-Building Machines**

Under the Fuel Tax Act, tax-exempt diesel fuel may be used in unlicensed commercial vehicles, such as road-building machines. The government will propose amendments to the Highway Traffic Act to modernize, by 2016, the treatment of certain unregistered road-building machines that use public roads and highways. Amendments would include imposing registration and licensing requirements on some of these vehicles. As such, additional fuel tax revenue would result from certain licensed road-building machines that would not be permitted to use tax-exempt fuel. Examples of these vehicles include mobile cranes, concrete pumpers and hydrovacs.

## **Revenue Integrity**

### **Corporate Tax Avoidance**

The amendments to the Taxation Act, 2007 enacted earlier this year require corporations in Ontario to disclose aggressive tax avoidance transactions to the federal Minister of National Revenue, who administers Ontario's corporate taxes. This approach parallels those taken by the federal and Québec governments on reportable transaction rules.

Subject to federal implementation, Ontario would also automatically parallel the following federal initiatives to address aggressive international tax planning:

- Captive insurance—an amendment to an anti-avoidance rule intended to prevent Canadian taxpayers, e.g., financial institutions, from shifting income from the insurance of Canadian risks offshore.
- Offshore regulated banks—an amendment related to the calculation of income for regulated foreign financial institutions owned by Canadian taxpayers.

### **Enhanced Audit Activity**

Building on its existing compliance programs, the ministry is directing additional resources to its Flexible and Integrated Risk System (FAIRS) program to identify high-risk audit cases across several tax statutes.

### **Underground Economy**

The government is also working with the Canada Revenue Agency (CRA) on enhancing compliance activities to address the underground economy. In addition, through the Tender Contract Tax Compliance initiative launched in February 2014, businesses that are engaged in procurement activity with the Ontario government must demonstrate (via certification of tax compliance) that they are compliant with their provincial tax obligations prior to being awarded government contracts.

### **Contraband Tobacco Enforcement**

The government will be strengthening tobacco enforcement. Accordingly, the government will be proceeding with the implementation of the Ministry of Finance raw leaf oversight system effective January 1, 2015. In support of this effort, amendments to the Tobacco Tax Act to provide rules outlining the information requirements for a raw leaf tobacco registration certificate application and ongoing information reporting requirements for certificate holders. This is consistent with the government's intent from the Supporting Smoke-Free Ontario by Reducing Contraband Tobacco Act, 2011. The Tobacco Tax Act was also amended to increase fines for offences related to marked tobacco products, impound vehicles used to transport illegal tobacco and strengthen other enforcement measures.

## **Land Transfer Tax**

The Province introduced a general anti-avoidance rule into the Land Transfer Tax Act, applicable to transactions that are completed after May 1, 2014 and transactions that are part of a series of transactions that is completed after May 1, 2014. Other legislative options to further ensure the integrity of the land transfer tax system are also under consideration.

## **Other Measures**

### **Tax Credit for Farmers Who Donate to Community Food Programs**

The Local Food Act, 2013, which received Royal Assent on November 6, 2013, introduced a new non-refundable income tax credit for farmers who donate agricultural products to community food programs, including food banks. The credit is worth 25 per cent of the fair market value of the agricultural products donated. Farmers will be able to claim the credit on their 2014 income tax returns for donations made beginning January 1, 2014. The government brought forward regulations to implement the credit, which became effective on August 15 and September 29, 2014.

### **Expanding the Ontario Child Benefit**

In July 2014, the maximum annual Ontario Child Benefit (OCB) per child increased to \$1,310.

Amendments to the Taxation Act, 2007 were enacted earlier this year to begin indexing the OCB maximum benefit, and the income threshold at which the OCB starts to be reduced, to annual increases in the Ontario Consumer Price Index (CPI). This takes effect in July 2015, and safeguards the purchasing power of the OCB from erosion due to inflation.

Since the introduction of the OCB monthly payments in 2008, Ontario Child Care Supplement (OCCS) payments have been reduced by the amount of a family's OCB. OCCS ended in July 2014 as the maximum annual OCB increased to \$1,310 per child. The final OCCS entitlement was paid for June 2014. Amendments were made to the Income Tax Act to include a final application deadline for these entitlements of December 31, 2015. Eligible families continue to receive child benefit payments through the OCB.

## Federal Tax Measures

### Paralleling Federal Tax Measures

The 2014 federal budget proposed several personal and corporate income tax measures, including proposals related to:

- medical expenses
- tax changes for farmers and fishers
- amateur athlete trusts
- estate donations
- non-resident trusts
- pension transfer limits
- new limitations on shifting income to a minor child
- donations of ecologically sensitive land and certified cultural property
- clean energy generation equipment, and
- tax on insurance swaps and offshore regulated foreign financial institutions.

Under the terms of the Canada–Ontario Tax Collection Agreement, Ontario will adopt these measures and their effective dates as federal legislative and regulatory changes are approved.

Similarly, the 2014 federal budget proposed exemptions from HST for certain health-related services and medical devices that, as federal legislative changes have now been made, apply in Ontario.

### Taxation of Graduated Rate Trusts

In its 2014 Budget, the federal government proposed to change the taxation of certain trusts and estates that pay income tax at graduated rates. This measure, which is proposed to take effect as of the 2016 taxation year, is under review.

## For more information

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