February 2016

Tax and Benefit Related Measures

The 2016 Ontario Budget, introduced on February 25, 2016, included a number of proposed tax and benefit related changes. This publication provides general information only and is not a substitute for the legislation.

Personal Income Tax Credits

Tuition and Education Tax Credits

The government is making changes to student financial assistance to ensure that financial support is transparent, timely and better targeted. As part of this reform, the government proposes to end the Ontario tuition and education tax credits, beginning in the fall of 2017.

Ontario students would be able to claim the Tuition Tax Credit for eligible tuition fees paid in respect of studies up to and including September 4, 2017, and would be able to claim the Education Tax Credit for months of study before September 2017. The eligible portion of 2017 tax credits would be transferable to a qualifying family member.

Tax filers who are resident in Ontario on December 31, 2017, and have unused tuition and education tax credits available for carry-forward, would be able to claim them in future years. Tax filers who move to Ontario from other provinces after December 31, 2017, would no longer be able to claim their accumulated tuition and education tax credits in Ontario.

Children's Activity Tax Credit

The government introduced the Children's Activity Tax Credit (CATC) in 2010 to help parents with the cost of enrolling their children in various extracurricular activities, including sports, arts and cultural programs. Although the credit is refundable, it largely goes to higher-income families, who are less likely to need it to help pay for their children's activities. Of families expected to benefit from the credit for 2015, about 50 per cent have incomes above $100,000, while only five per cent have incomes below $20,000. By comparison, about 15 per cent of tax-filing families with children are estimated to have incomes below $20,000.

Ontario proposes to end the CATC as of January 1, 2017, and will focus on developing other programs to encourage physical activity and healthy eating for Ontario's children, including those in lower-income families.

Healthy Homes Renovation Tax Credit

Ontario's Healthy Homes Renovation Tax Credit (HHRTC) was announced in 2011 to help seniors live independently in their homes by increasing the affordability of renovations that improve safety and accessibility.

Ontario proposes to end the HHRTC as of January 1, 2017. The credit has had significantly lower take-up than projected and provides little support to lower-income seniors. About 2.3 million seniors are expected to file tax returns for 2015. By comparison, only an estimated 25,000 HHRTC claims are expected to be made by seniors or their family members for 2015, with only 10 per cent of the credit expected to go to claimants with net family incomes below $30,000.

The government understands the challenges faced by seniors with mobility issues and provides assistance through programs that assess needs more effectively. For example, people with mobility-related disabilities or impairments may access funds to help with the cost of home modifications through the Ontario Home and Vehicle Modification program.

Paralleling Federal Personal Income Tax Measures

Under the terms of the Canada–Ontario Tax Collection Agreement, Ontario parallels federal changes to the definition of taxable income and certain applicable tax rates.

Small Business Dividend Tax Credit and Gross-Up

In its 2015 budget, the federal government announced reductions in the federal small business corporate income tax rate over four years. The corresponding changes to the gross-up rate for non-eligible dividends (generally issued by companies taxed at the small business rate) will be paralleled by Ontario. As a result, Ontario's non-eligible dividend tax credit rate will decline from 4.5 per cent for 2015 to 4.2863 per cent for 2016.

Ontario will review its non-eligible dividend tax credit rate for 2017 and subsequent years.

Tax-Free Savings Accounts

The federal government recently announced a reduction in the annual contribution limit for Tax-Free Savings Accounts, from $10,000 in 2015 to $5,500 for 2016. Indexation of the contribution limit will resume. These changes will increase Ontario's tax revenue.

Tax on Split Income

The Ontario government proposes to change the way it taxes income that is split with certain related children, by paralleling the federal approach of applying its top marginal PIT rate to all such income. Similar to the recent change in Ontario's tax treatment of trusts, this approach would close a tax planning loophole. The measure is not designed to generate a net increase in revenue.

Starting January 1, 2016, such split income would be taxed at Ontario's top marginal PIT rate of 20.53 per cent, and no surtax would be payable on that income.

A Simpler Personal Income Tax

Ontario has a complex PIT system where tax brackets and other components result in effective tax rates that are not easily understood by tax filers. The government will examine ways to simplify the PIT calculation, including the Ontario surtax and Ontario Tax Reduction, so that Ontarians can better understand their effective tax rates.

Business Tax Credits

Research and Development Tax Credits

As part of the Program Review, Renewal and Transformation process, the government proposes to reduce the level of support provided through the Ontario Research and Development Tax Credit and the Ontario Innovation Tax Credit. The province will continue to examine ways to encourage Research and Development (R&D) investment in Ontario, increase the commercialization of research and better support export activity.

Ontario Innovation Tax Credit (OITC)

The province proposes to reduce the rate of the OITC from 10 per cent to 8 per cent. The rate change would be implemented as follows:

- For taxation years that end on or after June 1, 2016 that do not include May 31, 2016, the tax credit rate would be 8 per cent,
- For taxation years that end on or after June 1, 2016 that include May 31, 2016, the tax credit rate would be the sum of:
    - 10 per cent multiplied by the ratio of the number of days in the year that are before June 1, 2016 to the total number of days in the year, and
    - 8 per cent multiplied by the ratio of the number of days in the year that are after May 31, 2016 to the total number of days in the year, and
- For taxation years that end before June 1, 2016, the tax credit rate would be 10 per cent.

Ontario Research and Development Tax Credit (ORDTC)

The province proposes to reduce the rate of the ORDTC from 4.5 per cent to 3.5 per cent. The rate change would be implemented as follows:

- For taxation years that end on or after June 1, 2016 that do not include May 31, 2016, the tax credit rate would be 3.5 per cent,
- For taxation years that end on or after June 1, 2016 that include May 31, 2016, the tax credit rate would be the sum of:
    - 4.5 per cent multiplied by the ratio of the number of days in the year that are before June 1, 2016 to the total number of days in the year, and
    - 3.5 per cent multiplied by the ratio of the number of days in the year that are after May 31, 2016 to the total number of days in the year, and
- For taxation years that end before June 1, 2016, the tax credit rate would be 4.5 per cent.

Recapture rules apply if property that was included in a previous ORDTC claim is subsequently disposed of or converted to commercial use. The recapture rules are being reviewed due to the proposed rate change.

Ontario’s Tobacco Strategy

Tobacco Tax Increase

Ontario is increasing the tobacco tax rate from 13.975 cents to 15.475 cents per cigarette and per gram of other tobacco products (except cigars), effective 12:01 a.m. February 26, 2016.

Wholesalers of tobacco products who are not collectors of tobacco tax are required to take an inventory of all cigarettes and other tobacco products (except cigars) held as of 12:01 a.m., February 26, 2016, and must remit the additional tobacco tax on that inventory, based on the difference between the previous and new tax rates, to the Minister of Finance by March 25, 2016.

Moving forward, to ensure tobacco tax rates retain their real value over time, the government is also increasing tobacco tax rates on cigarettes and other tobacco products (except cigars) by an amount based on inflation, each year for the next five years, beginning on June 1, 2017.

For details read **Tobacco Tax Rate Increases.**

Raw Leaf Tobacco

The Ministry of Finance (MOF) assumed full oversight of all raw leaf tobacco (RLT) in the province on January 1, 2015, including flue-cured, dark-fired and burley tobacco which requires anyone who deals with RLT in Ontario to register and report activities to MOF.

As noted in the 2016 Budget, to further strengthen oversight of RLT, the Tobacco Tax Act (TTA) was amended in December 2015; and, the province is developing the administrative measures needed to support these amendments to the TTA, as well as a regulation to prescribe labelling requirements for bales and packages of RLT, which would be in place in advance of the 2016 RLT harvest.

Other Measures

Alcohol Charges

The following changes regarding wine and spirits are proposed:

- The Liquor Control Board of Ontario would increase the ad valorem mark-up for wine products by two percentage points effective June 2016.
    - The wine mark-up would be further increased by two percentage points in April 2017, two percentage points in April 2018 and one percentage point in April 2019.
- The basic tax on non-Ontario wine purchased at winery retail stores would be increased by one percentage point in each of June 2016, April 2017, April 2018 and April 2019.
- The collection of tax at winery retail stores on the premises of a grocery store would be provided for. The government proposes to introduce legislation in the future to establish higher basic wine tax rates on purchases at those stores.
- The government also proposes to introduce legislation to replace the current mark-up and commission structure at on-site distillery retail stores with a tax on purchasers of spirits.

Registration Requirements for Certain Road-Building Machines

Amendments are proposed to the Highway Traffic Act to implement the 2014 Ontario Budget announcement that the province would modernize the treatment of certain unregistered road-building machines. Implementation of this measure is expected to occur on January 1, 2017. Complementary amendments to the Act will also be proposed.

Strengthening Ontario’s Property Tax and Assessment System

Overview

A fair and effective property tax and assessment system is critical to support local services and adequately fund Ontario’s school system.

The province is working with municipalities, the Municipal Property Assessment Corporation (MPAC), and other stakeholders to strengthen Ontario’s property tax and assessment system. For example, the province is providing municipalities with increased flexibility to manage the Business Property Tax Capping program, moving forward with measures to create a fair and modern Provincial Land Tax (PLT) system, and implementing recommendations of the Special Purpose Business Property Assessment Review (Assessment Review). Building on the success of this work, the province will be engaging in further consultations with key stakeholders on these and other measures.

Business Property Tax Capping Program

In 2015, the province initiated a review of the Business Property Tax Capping Program in response to municipal and business stakeholder requests to address the potential for inequities and economic distortions that may result from the program. Based on this review, the government announced significant enhancements to the capping program through the 2015 Ontario Economic Outlook and Fiscal Review. As a result of these enhancements, municipalities will be able to adjust the capping program to best suit their local circumstances and enhance the equity and transparency of the property tax system.

Building on these measures, the province will continue consultations with municipal and business stakeholders in 2016 to identify opportunities to further enhance the program. In support of the ongoing review, the province is introducing legislation to facilitate potential future refinements and program flexibility.

Vacant Unit Rebate and Vacant/Excess Land Subclasses

In 2015, the province initiated a review of the Vacant Unit Rebate and Vacant/Excess Land Subclasses. Since 1998, these programs have provided tax rebates and reductions to property owners who have vacancies in commercial and industrial buildings or land. The review responds to municipal and business stakeholders’ concerns regarding the appropriateness of the lower tax level provided through these programs and any unintended implications this has for local economies. This review will continue in 2016 with stakeholder consultations on the potential provision of additional municipal flexibility to reflect local needs. Ontario is introducing a legislative framework to facilitate potential changes to the programs as a result of the review.

Provincial Land Tax (PLT)

The government announced changes to the Provincial Land Tax (PLT) in its 2015 budget. Before these changes were announced, PLT rates had not been updated to increase revenues in over 60 years. As a result, property tax inequities had developed in northern Ontario. While this initial stage of PLT reform made important strides in creating a more equitable PLT, the government committed to continue discussions with northerners on ways to further address tax inequities in the north.

During 2015, the province initiated the next round of consultations by holding 15 open houses across northern Ontario. The open houses provided unincorporated area property owners with the opportunity to hear more about PLT changes and to provide input. These sessions are summarized in **Provincial Land Tax Reform: Overview of the Provincial Land Tax Open Houses**, published by the Ministry of Finance.

The second stage of the PLT review will continue to address inequities in taxation and in how important services are paid for in the north. As part of the ongoing PLT review, the government will continue to consult with northerners on ways to further address tax inequities in the north before determining PLT rate adjustments for 2017.

The government remains committed to transforming the PLT into a fair and modern property tax system.

Strengthening Ontario's Assessment System

The government is working to improve the property assessment system by implementing the recommendations of the Assessment Review in partnership with the Municipal Property Assessment Corporation (MPAC), municipalities and stakeholders.

One of the key recommendations from the Assessment Review is the introduction of an advance disclosure process, which will enable affected businesses and municipalities to contribute to the determination of assessed values before the assessment roll is finalized. An important objective of this process is to reduce the number and impact of appeals by increasing transparency, predictability and accuracy of assessed values for the next province-wide reassessment in 2016.

As announced in the 2015 Ontario Economic Outlook and Fiscal Review, Ontario made improvements to the Request for Reconsideration process to standardize timelines and support the early resolution of assessment issues. The province will continue to work with stakeholders to introduce refinements that promote the early resolution of assessment issues and the accurate determination of assessed values through the timely sharing of information.

Value-Added Farm Activities

The government has heard from the agriculture sector that current property tax increases related to small-scale on-farm agricultural processing and manufacturing can be a disincentive for some farmers to expand and diversify their operations.

Where a farmer conducts on-farm, value-added activities that use their agricultural product to create a new product, the portion of the property that is used for that activity is taxed at the industrial rate. This is intended to ensure consistent property tax treatment and a level playing field between processing activities conducted on a farm and similar activities that are conducted off farms. Many municipalities have expressed support for encouraging on-farm innovations that benefit local economies and provide additional sources of food to local communities.

Ontario will be working with the farming community and the municipal sector to provide sustainable property tax treatment to farmers who engage in small-scale, value-added activities as part of their farming business, while maintaining a level playing field for large processors.

For more information

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