

Tax and Benefit Related Measures

The 2015 Ontario Budget, introduced on April 23, 2015, included a number of proposed tax and benefit related changes, including measures to enhance tax fairness and promote a level playing field for business. This publication provides general information only and is not a substitute for the legislation.

Tax Changes for Business

Apprenticeship Training Tax Credit (ATTC)

The government proposes the following changes to the ATTC, effective for eligible expenditures related to apprentices who began an apprenticeship program after April 23, 2015:

- decrease the general tax credit rate from 35 per cent to 25 per cent
- decrease the tax credit rate for small businesses with salaries or wages under \$400,000 per year from 45 per cent to 30 per cent
- decrease the annual maximum credit for each apprentice from \$10,000 to \$5,000, and
- reduce the eligibility period from the first 48 months of an apprenticeship program to the first 36 months of an apprenticeship program.

Ontario Interactive Digital Media Tax Credit (OIDMTC)

The government proposes to amend the OIDMTC by focusing the credit on entertainment products and educational products for children under the age of 12. Certain products would be specifically excluded, such as search engines, real estate databases, or news and public affairs products. The government also proposes to strengthen the rule that excludes promotional products.

The changes would apply to expenditures incurred after April 23, 2015. However, products started before April 24, 2015, that would no longer be eligible for the credit, would be eligible for relief in respect of expenditures incurred before April 24, 2015. Information about the proposed changes and examples of products that would be eligible for the credit will be provided in a separate bulletin.

The Province also proposes to improve the certification process by amending the requirement that all or substantially all (at least 90 per cent) of a product be developed in Ontario by the company

claiming the OIDMTC. To provide certainty to applicants and reduce processing times for product certification, the requirement would be replaced by a rule based on the labour costs of the company developing the product. The proposed rule would require that 80 per cent of the total labour costs be attributable to qualifying wages and qualifying remuneration paid to individuals or corporations that carry on a personal services business. As well, 25 per cent of total labour costs would be required to be attributable to qualifying wages of employees of the qualifying corporation. The new rule would apply to all products, including those awaiting certification. However, the new rule would not apply to products that have been certified before April 24, 2015.

Ontario Production Services Tax Credit (OPSTC)

Ontario is proposing to reduce the rate of the OPSTC from 25 per cent to 21.5 per cent for qualifying production expenditures incurred after April 23, 2015.

Ontario proposes to require that a qualifying corporation's Ontario labour expenditures (including labour under a service contract) would have to amount to at least 25 per cent of total expenditures. Ontario also proposes to limit expenditures incurred by a qualifying corporation pursuant to contracts with non-arm's-length parties to amounts that would have been eligible for the credit if the corporation had incurred the expenditures directly. These changes would be effective for taxation years that begin after April 23, 2015.

It is also proposed that the OPSTC be clarified to ensure that only expenditures incurred after the final script stage to the end of the post production stage would be eligible for the credit. This amendment would apply to expenditures incurred after June 30, 2009.

Ontario Computer Animation and Special Effects Tax Credit (OCASETC)

Ontario is proposing to reduce the rate of the OCASETC from 20 per cent to 18 per cent for expenditures incurred after April 23, 2015. In addition, to better target the credit, Ontario proposes to require that productions started after April 23, 2015 must also receive the Ontario Film and Television Tax Credit or the OPSTC in order to claim the OCASETC.

Ontario Film and Television Tax Credit (OFTTC)

Ontario's long standing administrative position has been not to treat government equity investments as assistance for the purposes of the OFTTC. The government will file a regulation, effective after December 31, 2008, to enable this treatment to continue.

Ontario Sound Recording Tax Credit (OSRTC)

The government is proposing to eliminate the OSRTC. Any expenditure incurred after April 23, 2015 would only qualify for the credit if the eligible sound recording was started before April 23, 2015, the expenditure was incurred before May 1, 2016, and an Ontario Music Fund grant is not received for the expenditure.

Changes to Beer Tax Rates

Ontario is proposing to increase the basic rate of tax payable by purchasers of beer under the Alcohol and Gaming Regulation and Public Protection Act, 1996. The basic rate of tax would increase by 3 cents per litre every year, for a four-year period. The increase dates would be November 1 of 2015, 2016, 2017 and 2018.

Paralleling Federal Measures

Changes to the Taxation of Trusts and Estates

Ontario is proposing to change the way it taxes trusts, including estates, by paralleling the federal approach of applying the top marginal Personal Income Tax (PIT) rate to all trusts, with the following exceptions, beginning in 2016. Graduated PIT rates and the Ontario surtax would continue to apply for the first 36 months of eligible estates (Graduated Rate Estates, or “GREs”) and to trusts created as a result of the death of an individual that have beneficiaries eligible for the federal Disability Tax Credit (Qualified Disability Trusts, or “QDTs”).

All other trusts (“top-rate trusts”) taxable in Ontario would pay the Ontario top marginal PIT rate of 20.53 per cent on all their taxable income. These trusts would not pay any Ontario surtax as it is already reflected in the top marginal PIT rate.

The top Ontario credit rate for the Charitable Donations Tax Credit would be raised to 17.41 per cent for top-rate trusts.

The government will introduce legislative amendments to implement these measures that, if passed, would take effect for taxation years ending after December 31, 2015.

Ontario Resource Tax Credit and the Additional Tax on Crown Royalties

The province is proposing to harmonize with the federal government and other provinces by eliminating the Ontario Resource Tax Credit and the Additional Tax on Crown Royalties, and providing a deduction for royalties and mining taxes paid, effective April 23, 2015. Accrued but unused Ontario Resource Tax Credit amounts would be eligible for carry-forward to offset Ontario income tax payable in the first five taxation years beginning after April 23, 2015.

Supporting Consolidation of the Electricity Distribution Sector

Transfer Tax and Payments in Lieu of Tax

In October 2009, the government announced a permanent exemption from the transfer tax on transfers of electricity assets within the public sector.

Municipal electricity utilities (MEUs) are subject to a transfer tax of 33 per cent on the fair market value of the electricity assets sold to the private sector, less any payments in lieu of taxes (PILs) or Ontario Corporate Income Tax paid up to the time of the transfer.

The Province is proposing time-limited relief on taxes pertaining to transfers of electricity assets for all MEUs, including transfers to the private sector, for the period beginning January 1, 2016 and ending December 31, 2018, by:

- reducing the transfer tax rate from 33 to 22 per cent
- exempting MEUs with fewer than 30,000 customers from transfer tax, and
- exempting from payments-in-lieu of tax (PILs) any capital gains that arise when an MEU ceases to be exempt from federal and Ontario income tax and is deemed to dispose of all its assets for fair market value.

The Province is proposing to amend the regulations made under the Electricity Act, 1998 to adopt federal anti-avoidance measures set out in section 100 of the Income Tax Act (Canada). The measures would prevent the avoidance of PILs through dispositions of partnership interests, made directly, or indirectly as part of a series of transactions, to a person who is not subject to PILs or to a partnership whose members are not all subject to PILs.

Other Measures

Registration Requirements for Certain Road-Building Machines

The 2014 Ontario Budget announced that the Province will propose amendments to the Highway Traffic Act that would modernize, by 2016, the treatment of certain unregistered road-building machines that use public roads and highways.

These vehicles are currently exempt from Ontario fuel tax and many requirements tied to vehicle registration. The proposed changes would provide fuel tax revenue to support public transit, transportation infrastructure and other priority projects across the province.

The government is currently reviewing potential registration and licensing requirements to be imposed on some of these vehicles, developing a registration process, and meeting with various stakeholders to receive input on this measure.

Removing the Debt Retirement Charge from Residential Bills

As part of its commitment to reduce electricity cost pressures, the government is moving forward with removing the Debt Retirement Charge from residential electricity bills after December 31, 2015.

Property Tax Measures

Provincial Land Tax (PLT)

The Province is proposing to update the PLT in order to reduce tax inequities among northern property owners. PLT reform will proceed in a staged approach to help ensure a manageable pace of change.

For residential taxpayers, the government is proposing that the PLT rate be adjusted by \$10 per \$100,000 of assessed value in 2015 and an additional \$40 per \$100,000 of assessed value in 2016.

The PLT rate change for business properties would be proportionate to the residential increase. The minimum per property PLT would be set at \$50 annually beginning in 2016, to ensure that all property owners make a basic contribution toward the cost of important services.

The government will ensure that provisions are in place for property tax relief to make changes more manageable for low income seniors and low-income people with disabilities.

The Province is also proposing to introduce measures that would support better information sharing with local boards and will continue to seek input on additional system improvements.

The Province will continue discussions on ways to further address tax inequities in the North and support the work of local roads and services boards. To initiate these discussions the Ministry of Finance will launch a new series of consultations with Northern Ontarians.

Maintain Tax Fairness and a Level Playing Field for Business

Combatting the Underground Economy

Ontario is determined to address underground economic activity. The government is proposing a number of measures in 2015-16 to help level the playing field for business.

Addressing Electronic Sales Suppression

Electronic sales suppression refers to techniques used by some businesses to conceal sales, including the taxes that customers have paid. There are multiple forms of electronic suppression, but one of the most well-known is the use of sophisticated software such as “zappers”.

To better address electronic sales suppression, the Province is proposing to penalize the use, manufacture or distribution of sales suppression technologies under the Taxation Act, 2007. As a further measure, Ontario will consult with the business community and others in the coming months on options to stop sales suppression at point-of-sale terminals, including technology-based

approaches that could ensure all businesses abide by the same tax obligations without being unnecessarily burdensome.

Better Information and Analytics to Inform Action

Ontario must be in a position to facilitate better information sharing within the government, as well as with other governments and government entities, including municipalities. Accordingly, in the coming year, the Province will examine legislative options to improve its ability to share information, while respecting the privacy of citizens and consulting with all interested parties.

Further Expansion of Tax Verification

When the government awards a contract to a business, that business must be compliant with its tax obligations before a contract is finalized. The Government remains committed to expanding tax verification to include the broader public sector and Crown corporations, and will continue to make progress towards this goal in 2015-16. As part of that progress, the Government will undertake pilot projects with subcontractors in targeted areas in the coming year.

First Nation Partnerships

The government is committed to continuing a dialogue with First Nation communities and leaders on tobacco. This includes discussions on self-regulation of tobacco on-reserve and revenue-sharing.

The government has also launched the review of the First Nations Cigarette Allocation System, led by independent co-facilitators Kathleen Lickers and Peter Griffin.

Further, the Province will engage First Nations to seek their advice on modernizing the Ontario Gas Card Program, focusing on improved customer service and better program integrity.

Measures to Address Contraband Tobacco

Contraband tobacco is a significant component of Ontario's underground economy.

Ontario's tobacco strategy consists of a balanced approach of partnerships and compliance activities to address the issue of contraband tobacco. In the 2014 Budget, the government amended the Tobacco Tax Act to increase fines for offences related to marked tobacco products, allow for impounding vehicles used to transport contraband tobacco and strengthen other enforcement measures.

Effective January 1, 2015, the government also took steps to impede the flow of raw leaf tobacco to contraband manufacturers through the introduction of regulations that provide for effective oversight. The government is working cooperatively with growers and others that deal with raw leaf tobacco in Ontario to ensure they are registered.

The government will continue to closely monitor implementation of this important initiative and identify possible additional legislative measures to strengthen the raw leaf oversight regime.

Building on these existing measures, the government is proposing a number of additional actions, including:

- examining opportunities to regulate other tobacco product components such as acetate tow, a key component of cigarette filters
- enhancing partnerships with key enforcement agencies by proposing legislative amendments to support those partnerships and providing resources to the Ontario Provincial Police to address the link between contraband tobacco and organized crime
- proposing legislative change to designate Ministry of Finance enforcement personnel as peace officers
- moving forward to enable information sharing under the raw leaf tobacco oversight regime
- proposing amendments that would authorize a vehicle to be stopped, detained and searched if there are reasonable and probable grounds to believe that it contains raw leaf tobacco
- introducing legislative amendments to make it easier to enforce the Tobacco Tax Act against those who interfere with inspections, and
- ensuring better coordination between inspections conducted by public Health inspectors under the Smoke-Free Ontario Act and inspections conducted by the Ministry of Finance under the Tobacco Tax Act.

The Province is also proposing to improve the government's ability to partner with, and provide grants to, external organizations in support of compliance activities related to Tobacco Tax Act and other statutes.

For more information

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