“[O]ur government is on track to beat the deficit target for the fifth year in a row. “We will stick to our plan to balance the budget by 2017-18. “[W]e are proposing further tax changes that would affect only the top 2% of Ontario tax filers – those individuals with taxable incomes over $150,000. “[O]ur government is introducing the first-of-its kind mandatory provincial pension plan to build on the Canada Pension Plan.”

Ontario Finance Minister Charles Sousa, 2014 budget speech

Ontario Finance Minister Charles Sousa tabled the province’s fiscal 2014-15 budget on 1 May 2014. The budget contains several tax measures affecting individuals and corporations.

The minister anticipates a deficit of $11.3 billion for 2013-14, $12.5 billion for 2014-15, $8.9 billion in 2015-16, $5.3 billion in 2016-17 and a return to a balanced budget in 2017-18.

The government projects real gross domestic product (GDP) growth of 2.1 % in 2014, 2.5% in 2015, 2.5 % in 2016 and 2.6 % in 2017.

Following is a brief summary of the key tax measures.
Business tax measures

Small-business deduction

Canadian-controlled private corporations (CCPCs) are entitled to the small business deduction (SBD) on the first $500,000 of active business income (shared among associated corporations). The SBD reduces Ontario’s general corporate income tax rate of 11.5% to 4.5%. The budget proposes to parallel federal rules that phase out the SBD for large CCPCs, effective for taxation years ending after 1 May 2014.

Specifically, Ontario’s SBD will be phased out for CCPCs (including associated corporations) with taxable capital employed in Canada in excess of $10 million in the previous taxation year, and will be completely eliminated when taxable capital exceeds $15 million in the previous taxation year. The phase-out will be pro-rated for taxation years that straddle 1 May 2014.

Corporate tax rates

No changes are proposed to the corporate tax rates or the $500,000 small-business limit.

Ontario’s current corporate tax rates are summarized in Table A.

<table>
<thead>
<tr>
<th></th>
<th>Small-business tax rate</th>
<th>General corporate tax rate</th>
<th>Manufacturing and processing income tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ontario</td>
<td>4.5%</td>
<td>11.5%</td>
<td>10.0%</td>
</tr>
<tr>
<td>Federal and Ontario combined</td>
<td>15.5%</td>
<td>26.5%</td>
<td>25.0%</td>
</tr>
</tbody>
</table>

Other business tax measures

The minister also proposed the following business tax measures:

- **Aggressive tax planning:** The budget reaffirms the government’s intention, announced in the 2013-14 budget, to propose legislation to introduce new reporting rules for aggressive tax avoidance transactions that attempt to avoid Ontario tax. The proposed rules will be similar to the federal reportable transaction rules included in section 237.3 of the *Income Tax Act*.

- **2014 federal budget harmonization:** The budget confirms Ontario will automatically parallel the 2014-15 federal budget proposals for accelerated capital cost allowance (CCA) for investment in specified clean energy generation equipment, as well as the international tax measures dealing with tax on insurance swaps and offshore regulated banks.

- **Review of refundable business tax credits:** The budget indicates that the Technical Panel appointed following the 2013-14 budget to evaluate the sustainability and effectiveness of refundable tax credits and direct funding programs, is continuing its review. The Technical Panel’s final report is expected to be released this spring.

As mentioned in the 2013 *Economic Outlook and Fiscal Review*, Ontario is reviewing options to restructure tax support for R&D to encourage higher levels of R&D investment in the province. The budget confirms that the government is exploring an incremental tax incentive approach whereby companies that increase R&D investment could qualify for an enhanced tax credit on the incremental investment in addition to their existing credits.

- **Training tax credits:** The budget announces a review of the Apprenticeship Training Tax Credit and the Co-operative Education Tax Credit for large businesses with the intention of making these credits non-refundable. A review of these credits to make them more effective is also continuing.
Personal tax

Personal income tax rates

For 2014 and later taxation years, two changes are proposed to Ontario’s personal income tax rate structure. First, the income threshold for the highest tax rate (currently 13.16%) is reduced from $514,090 to $220,000. Second, a new tax rate of 12.16% will apply to taxable income between $150,000 and $220,000. The two new income thresholds will not be adjusted for inflation each year.

There are no changes to the tax rates for the lowest three income brackets, or to the income thresholds at which they apply. In addition, no changes to the surtax were announced in the budget. The donation tax credit rates also remain unchanged at 5.05% on the first $200 of donations and 11.16% on donations above $200.

The 2014 personal tax rates are summarized in Table B.

<table>
<thead>
<tr>
<th>First bracket rate</th>
<th>Second bracket rate</th>
<th>Third bracket rate</th>
<th>New fourth bracket rate</th>
<th>Highest bracket rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.05% on the first $40,120</td>
<td>9.15% on $40,121 to $80,242</td>
<td>11.16% on $80,243 to $150,000</td>
<td>12.16% on $150,001 to $220,000</td>
<td>13.16% on income in excess of $220,000</td>
</tr>
</tbody>
</table>

For 2014, the 20% surtax applies to basic Ontario tax in excess of $4,331, and the additional 36% surtax applies to basic Ontario tax in excess of $5,543.

Dividend tax credit

The budget confirms that legislation will be introduced to implement changes to Ontario’s eligible and non-eligible dividend tax credit rates announced in Ontario’s 2013 Economic Outlook and Fiscal Review. These changes, which apply to dividends paid after 2013, include:

- Changes to maintain the 4.5% non-eligible dividend credit rate
- Increase in the eligible dividend tax credit rate from 6.4% to 10%

As a result of these changes, for 2014 and later years, the top marginal rate on non-eligible dividends is 40.13% and on eligible dividends is 33.82%.

Other personal tax measures

2014 federal budget harmonization: This budget confirms Ontario will automatically parallel the 2014-15 federal budget measures related to medical expenses, tax changes for farmers and fishers, amateur athlete trusts, estate donations, nonresident trusts, pension transfer limits and new limitations on shifting income to a minor child.

Other tax measures

Fresh food donation tax credit

Ontario introduced a new 25% non-refundable income tax credit to encourage the donation by farmers of surplus fresh food (for donations made after 2013). The credit was enacted on 6 November 2013 as part of Ontario Bill 36, Local Food Act, 2013. The budget confirms that regulations will be introduced to implement the credit.

Donations of ecologically sensitive land and certified cultural property

Ontario announced it will adopt measures announced in the 2014-15 federal budget related to donations of ecologically sensitive land and certified cultural property.

Harmonized sales tax (HST)

The exemption from HST announced in the 2014-15 federal budget for certain health-related services and medical devices will apply in Ontario once the federal changes have been made.
Tax on aviation fuel

The budget proposes to increase the 2.7 cents per litre tax on aviation fuel, which is imposed under the *Gasoline Tax Act*, by one cent per litre each year for four consecutive years, beginning in 2014. The increase for 2014 would be effective the day after the amendment receives Royal Assent and subsequent increases would be effective 1 April of each year. The rate effective 1 April 2017 would be 6.7 cents per litre.

Tobacco tax

Effective 2 May 2014, the budget proposes to increase the tobacco tax rate from 12.350 cents to 13.975 cents per cigarette and per gram of tobacco products other than cigarettes and cigars. The rate per carton of 200 cigarettes will increase from $24.70 to $27.95. The rate for cigars is not affected and remains at 56.6% of the taxable price.

The government also indicated that it will be strengthening tobacco enforcement measures.

Land transfer tax

The Ministry of Finance is reviewing what it considers “aggressive tax avoidance structures” and issuing land transfer tax assessments accordingly. The ministry is concerned that some structures are attempting to use a “de minimis” partnership exemption under the regulations to acquire land without payment of land transfer tax in a manner inconsistent with the intent of the exemption.

The province also proposes to introduce a general anti-avoidance rule into the *Land Transfer Tax Act* which would apply to transactions that are completed after 1 May 2014 and transactions that are part of a series of transactions that is completed after that day.

Improving retirement income security

The minister reconfirmed earlier pronouncements of Ontario’s commitment to enhancing and improving Ontario residents’ retirement income security. The budget announces the following changes as part of its strategy to improve the retirement income system:

- **Ontario Retirement Pension Plan (ORPP):** Ontario proposes to introduce in 2017 a mandatory provincial pension plan (the ORPP) that builds on the key features of the federal Canada Pension Plan (CPP). To minimize the impact of the ORPP on business, the province will consult with Ontario employers and labour. Ontario will also work with the federal government to facilitate a seamless implementation of the ORPP. Ontario will release further technical details before introducing legislation for the ORPP.

- **Pooled registered pension plans (PRPPs):** Following the consultation that was announced in the 2013-14 budget, Ontario proposes to introduce in fall 2014 a legislative framework for PRPPs that will be broadly consistent with the model introduced by the federal government and adopted by various provinces.

- **Other pension-related changes:** Ontario announced it will reform funding rules for defined benefit plans, enhance investment opportunities for broader public-sector pension plans through pooled asset management, and allow for the conversion of employer-sponsored, single-employer pension plans to jointly sponsored pension plans. Ontario also announced it will consult on a regulatory framework for multi-employer target benefit pension plans.
Learn more

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