

# Ontario budget highlights

March 22, 2007

Ontario's Minister of Finance, **Greg Sorbara**, presented the 2007 provincial budget today at 4:00 pm EDT. The following is a summary of the highlights contained in the budget.

## Economic context

- The provincial surplus for fiscal 2006-2007 is projected to be \$0.3 billion.
- A surplus is projected of \$0.4 billion in 2007-2008 and surpluses of \$1.3 billion in 2008-2009 and \$1.6 billion in 2009-2010.

## Highlights for businesses

- Bill 174, *Strengthening Business through a Simpler Tax System Act, 2006*, introduced December 13, 2006, proposes to harmonize Ontario with the federal tax system, allowing for a single administration of both regimes. The budget proposes three major consequential adjustments to the **Ontario Scientific Research and Experimental Development (SR&ED)** regime:
  - The relevant federal investment tax credit (ITC) balance will be added to the Ontario tax pool balance, to compensate for the elimination of an existing Ontario SR&ED incentive at the time of harmonization. Consequently, the potential tax liability arising on harmonization will be reduced.
  - Any remaining tax liability relating to harmonization and attributable to the excess of the federal SR&ED pool over the Ontario SR&ED pool can be deferred for a minimum of 7 years.
  - The government confirmed that post harmonization Ontario qualifying SR&ED expenditures will be eligible for a 4.5% non-refundable tax credit. This new credit will qualify for a 20-year carryforward and a three-year carryback, although no carryback to a taxation year that ends before 2009 will be permitted.
- The carryforward period for **Corporate Minimum Tax (CMT)** credits and losses attributable to taxation years ending after March 22, 2007 will be increased from 10 years to 20 years. CMT credits outstanding at the beginning of a corporation's first taxation year ending after 2008 relating to taxation years ending before March 23, 2007, will be extended by 10 years.
- The government proposes to exempt from CMT the accounting gains arising from corporate reorganizations or the replacement of assets. When a transferee disposes of property that was

acquired from a transferor that deferred the CMT gain, the transferee will no longer be liable for CMT on that deferred gain. These measures will apply to a disposition, amalgamation or winding up completed after March 21, 2007.

- Income for CMT purposes will be calculated without reference to unrealized gains and losses that are not required to be included in computing income for income tax purposes. Similar adjustments will be made when calculating a corporation's total assets for the purposes of determining whether the corporation qualifies for the CMT exemption for small corporations. These measures will be effective for taxation years ending after March 22, 2007.
- The elimination of the **capital tax** will be accelerated. The government proposes to introduce legislation to eliminate the capital tax effective July 1, 2010.
- To maintain the effect of the **special additional tax (SAT)** paid by life insurance companies under the harmonized corporate income tax base, the government proposes to introduce a SAT 20-year carryforward credit effective for taxation years ending after 2008. The credit will be equal to the amount of SAT paid for a taxation year ending after 2008, and will be applied to reduce Ontario income tax payable in excess of the greater of CMT and SAT.
- The 25% to 30% refundable **Apprenticeship Training Tax Credit (ATTC)** will be extended to eligible apprentices who commence employment before January 1, 2012 and eligible expenditures will be salaries and wages paid prior to January 1, 2015. Six trades will be added to the list of skilled trades that currently qualify for the ATTC and eligibility for each of these trades will be retroactive to the date that the Ministry of Training, Colleges and Universities introduced the apprenticeship program.
- The 18% **Ontario Production Services Tax Credit** will be extended for one year, until March 31, 2008.
- The 20% refundable **Ontario Computer Animation and Special Effects Tax Credit** will be amended to allow any wholly owned subsidiary to claim eligible labour expenditures incurred by the parent corporation in respect of the subsidiary's production, effective for productions commencing after March 22, 2007.

## Highlights for individuals

- The government will introduce an **Ontario Child Benefit (OCB)** of up to \$250 per child under age 18 in July 2007. The 2007 OCB will be reduced by 3.4 cents for every dollar of adjusted family net income over \$20,000. In July 2008, the maximum OCB will be \$600 per child under 18. The maximum OCB payment level will increase annually through 2011 to \$1,100. After July 1, 2008, the OCB will be reduced by 8% of adjusted family net income over \$20,000. The existing Ontario Child Care Supplement for Working Families (OCCS) will be consolidated with the OCB in July 2008. If a family's OCCS entitlement is larger than their OCB, the family will still receive the extra OCCS benefit. In July 2011, the OCCS will be phased out over seven years.
- The government will increase the senior couples' income threshold for the **Ontario Property and Sales Tax Credits (OPSTC)** beginning in 2007, to ensure seniors who receive income from Old Age Security, the Guaranteed Income

Supplement and the Ontario Guaranteed Annual Income System get the full benefit of the OPSTC.

- Effective for the 2007 taxation year, couples will be allowed to split certain types of **pension income** for Ontario income tax purposes, subject to the relevant federal proposals receiving Royal Assent.
- The government is proposing a new **life income fund** (LIF) to replace all existing LIFs and locked-in retirement income funds (LRIFs), which may be implemented by January 2008. The mandatory annuity purchase requirements will be eliminated. Individuals will have the right to a one-time unlocking of up to 25% of locked-in funds no earlier than the early retirement date under the pension plan from which the money was transferred. The annual payment schedule will be amended to increase retirement income and permit withdrawal of the entire remaining account balance when the individual is 90. There will be an ability to withdraw additional income based on investment returns in prior years.

### Other highlights

- The **business education property taxes** will be lowered to a maximum of 1.6% over the next seven years.
- The **property assessment system** will be changed to require:
  - a four year reassessment cycle
  - mandatory phase-in of assessment increases over four years
  - a two stage assessment appeal process with standardized information disclosure protocols.
- The temporary **Retail Sales Tax** (RST) rebate for residential purchases of solar, wind, micro hydro-electric and geothermal energy systems will be extended to purchases made before January 1, 2010.
- The government proposes to extend the RST exemption for **destination marketing fees** (DMFs) for one year. Any DMFs billed on or before June 30, 2008 would qualify for exemption from the 5% RST on accommodations.

### Technical measures

- The **Electricity Act, 1998** is being amended to improve consistency of taxation between public and private utilities.
- Amendments to the **Fuel Tax Act** will be proposed to reflect the current administrative practice that permits railways to use coloured fuel for their Ontario operations and ensure railways are registered with Ontario for fuel tax purposes.
- The pilot project for **small software businesses** to simplify the calculation of RST by using 6% of the total contract price of the software services will be extended to March 31, 2009.
- The **Tax Credit for Fuel Conservation** is being amended to address an administrative issue arising from certain lease financing situations to allow the credit to be deducted from the vendors' remittances, to ensure the credit is properly provided and accounted for by the vendor.
- The **Tobacco Tax Act** is being amended to suspend a retailer's ability to sell tobacco products and suspend other types of

licences where the retailer has been found to be repeatedly in violation of the *Tobacco Tax Act* and to permit agreements with the Canada Border Services Agency to authorize the collection of tobacco tax on tobacco products brought into Ontario by post or courier.

- The *Mining Act* will be amended to introduce a **diamond royalty** payable by the operator of a mine of up to 13% of the annual value of the output of the mine. This new diamond royalty will be effective after March 22, 2007. Diamonds will be excluded from taxation under the *Mining Tax Act* effective after March 22, 2007.
- **Technical amendments** will be proposed to various statutes, including the *Corporations Tax Act*, *Income Tax Act*, *Retail Sales Tax Act*, *Tobacco Tax Act*, etc.

For further details, we refer you to the Ministry of Finance Web site, where you can access the official budget documents without charge.

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