



TaxNewsFlash Canada

Ontario Drops Small Business Tax Rate for 2018

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Ontario's Minister of Finance Charles Sousa announced small business tax relief in the province's Fall Economic Update. The update, released on November 14, 2017, reduces the small business tax rate to 3.5% (from 4.5%) effective for 2018 and increases the non-eligible dividend tax rate for individuals. The update also introduces new apprentice training grants and incentives for hiring young workers, among other changes.

These corporate tax changes follow the upcoming increase to the minimum wage, which is expected to rise to \$14.00 (from \$11.60) on January 1, 2018 and to \$15.00 on January 1, 2019.

Corporate tax changes

Small business tax rate

The update reduces Ontario's small business corporate income tax rate that applies to the first \$500,000 of qualifying active business income of a Canadian-controlled private corporation to 3.5% (from 4.5%) effective January 1, 2018. The tax rate reduction would be prorated for taxation years straddling January 1, 2018. As a result, Ontario's corporate income tax rates will be as follows:

Ontario Corporate Income Tax Rates			
	Pre-update	2018	2019
General	11.5%	11.5%	11.5%
M&P	10%	10%	10%
Small business ¹	4.5%	3.5% ²	3.5%
¹ On the first \$500,000 of active business income			
² Effective January 1, 2018			

The federal government recently announced in its fall economic update that it would reduce the small business tax rate to 10% effective January 1, 2018, and to 9% effective January 1, 2019 (see [TaxNewsFlash-Canada 2017-49, "Highlights of the 2017 Fall Federal Economic Update"](#)). As a result, the combined federal and Ontario corporate income tax rates will be as follows:

Combined Federal and Ontario Corporate Income Tax Rates			
	Pre-update	2018	2019
General	26.5%	26.5%	26.5%
M&P	25%	25%	25%
Small business ¹	15.0%	13.5% ²	12.5% ³
¹ On the first \$500,000 of active business income			
² Effective January 1, 2018			
³ Effective January 1, 2019			

The Ontario update includes a measure that stipulates that a corporation may only claim the Ontario small business deduction if it also claims the federal small business deduction.

Apprentice grants

The Ontario update introduces a new Graduated Apprenticeship Grant for Employers to replace the existing Apprenticeship Training Tax Credit. This enhanced program provides grants to employers where their apprentices complete training programs as follows:

- \$2,500 upon the apprentice's completion of each of level one and level two
- \$3,500 upon the apprentice's completion of each of level three and level four
- \$4,700 upon the apprentice's attainment of certification (either through a certificate of apprenticeship or certificate of qualification if applicable).

The program provides a \$500 bonus to each grant level when the apprentice belongs to one of the following groups:

- Women

- Indigenous peoples
- Francophones
- People with disabilities
- Newcomers
- Visible minorities.

The new program also expands the eligible service sector trades to now include:

- Hairstylists
- Cooks
- Horticultural/Landscape Technicians
- Bakers/Pâtisseries
- Appliance Service Technicians.

According to the update, employers with eligible apprentices who have registered their apprenticeship program with the Ontario College of Trades after November 14, 2017 would be eligible for the new program. Employers with apprentices already registered in an eligible apprenticeship program on or before November 14, 2017 would continue to be eligible to receive the Apprenticeship Training Tax Credit for up to 36 months.

Small businesses hiring young workers

The Ontario update announces a new \$1,000 incentive for small employers with fewer than 100 employees for hiring a young worker from 15 to 29 years old. The employer would receive an additional \$1,000 for retaining that worker for six months. Further, for workers hired through Ontario's Youth Job Connection program, employers would receive retention payments of \$1,000 after three months, with a further \$1,000 payable after six months for each worker.

Business incentives

The Ontario update also announces new business incentives, including:

- Investing \$60 million in focused support for producers of locally grown fruits and vegetables, and other edible horticultural products

- Introducing a pilot program to help small businesses access financing by enabling partnerships between firms specialising in new technologies in financial services and institutional lenders
- Launching the Small Business Access Service to provide online and phone resources to help small businesses interact with the government.

Land transfer tax

The Ontario update proposes to relax the current requirement to pay land transfer tax within 30 days of the date of an unregistered disposition of land, such as allowing taxpayers to file returns quarterly without incurring liability for interest. Ontario notes that it will provide further details on this measure at a later date, and that it is still reviewing other issues with the land transfer tax rules.

Provincial Land Tax

As part of Ontario's efforts to reform the Provincial Land Tax, the update announces that Ontario plans to implement a single PLT rate of \$250 per \$100,000 of assessed value for all residential properties, both inside and outside school boards. Businesses in unincorporated areas would continue to make a proportionate contribution to the PLT changes. These changes would be fully phased in by 2021.

Further, Ontario announces changes affecting property taxes for certain farms. Specifically, the update provides that the first \$50,000 of assessed value of qualifying value-added and commercial activities on farms will be taxed at a municipal rate that is 75% lower than the commercial or industrial tax rate. To qualify, on-farm processing and commercial facilities must be assessed below \$1 million.

Personal tax changes

Non-eligible dividend tax credit

As a result of the decrease to the small business tax rate, the Ontario update also effectively increases the tax on non-eligible dividends, effective January 1, 2018.

Because the federal government also announced an increase in the non-eligible dividend tax rate effective January 1, 2018 and January 1, 2019 (consequential on the decrease in the federal small business tax rate), the combined federal/Ontario top marginal tax rate on non-eligible dividends will be:

Non-eligible dividends			
	2017	2018	2019
Federal	26.30%	26.64%	27.57%
Ontario	19.00%	20.20%	20.21%
Total	45.30%	46.84%	47.78%

We can help

Your KPMG adviser can help you assess the effect of the tax changes in this year's Ontario Economic Update on your personal finances or business affairs, and point out ways to take advantage of their benefits or ease their impact. We can also keep you abreast of the progress of these proposals as they make their way into law.

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