



TaxNewsFlash

Canada

Highlights of the 2023 Ontario Budget

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Ontario's Finance Minister Peter Bethlenfalvy delivered the province's 2023 budget on March 23, 2023. The budget anticipates a deficit of \$2.2 billion for 2022-23 and projects a deficit of \$1.3 billion for 2023-24 and a surplus of \$0.2 billion for 2024-25. Although the budget does not include any new changes to the corporate or personal tax rates, it introduces a new 10% refundable Manufacturing Investment Tax Credit for Canadian-controlled private corporations (CCPCs) on qualifying capital investments related to manufacturing or processing, among other changes.

Corporate tax changes

Corporate income tax rates

The budget does not announce changes to the province's corporate tax rates. As a result, Ontario's corporate income tax rates remain as follows:

Corporate Income Tax Rates — As of January 1, 2023		
	Ontario	Combined Federal and Ontario
General	11.50%	26.50%
M&P	10.00%	25.00%
Small business ¹	3.20%	12.20%

¹ On first \$500,000 of active business income.

Ontario Made Manufacturing Investment Tax Credit

The budget announces a new 10% refundable Ontario Made Manufacturing Investment Tax Credit. This credit is available to CCPCs that have a permanent establishment in Ontario and that make qualifying capital investments in buildings, machinery and equipment used in manufacturing or processing. In particular, the credit would be available for expenditures for certain capital property included in Class 1 or Class 53 for capital cost allowance (CCA) purposes, up to a limit of \$20 million in a taxation year (prorated for a short taxation year). An associated group of corporations would be subject to the \$20 million limit. As a result, a corporation may receive a tax credit of up to \$2 million a year.

Generally, the credit would apply on Class 1 expenditures for constructing, renovating or acquiring buildings used for manufacturing or processing in Ontario that become available for use on or after March 23, 2023. For a building to qualify, 90% of the building's floor space must be used at the end of the corporation's taxation year for manufacturing or processing in Ontario, and the building must be eligible for the additional 6% CCA permitted under the federal tax rules.

The credit would also generally apply on Class 53 expenditures for machinery and equipment used in the manufacturing or processing of goods in Ontario. The machinery and equipment would have to be acquired and become available for use on or after March 23, 2023, and before 2026. After 2025, qualifying investments would include expenditures for machinery and equipment used in the manufacturing or processing of goods for sale or lease that are included in CCA Class 43(a).

The budget advises that Ontario will review the credit every three years to evaluate its effectiveness, compliance burden and administrative costs.

Cultural media tax credits

The budget confirms that it will extend eligibility for Ontario's film and television tax credits to professional film and television productions distributed exclusively online, as it previously announced in the 2022 Ontario budget.

The budget confirms that the government is proceeding with its previously announced reviews of the Ontario Film and Television Tax Credit regional bonus, and the Ontario Computer Animation and Special Effects Tax Credit.

Personal tax changes

Personal income tax rates

The budget does not announce changes to personal tax rates. As a result, Ontario's personal income tax rates effective January 1, 2023 are as follows:

Personal Combined Federal/Ontario Top Marginal Rates	
	2023
Interest and regular income	53.53%
Capital gains	26.76%
Eligible dividends	39.34%
Non-eligible dividends	47.74%

Indirect tax changes

Tax on wine

The budget announces that a single 12% basic tax rate will apply on wine and wine coolers that are sold in off-site winery retail stores, including wine boutiques, effective July 1, 2023. Currently, four separate basic tax rates apply to wine sold in off-site winery retail stores.

Tobacco tax review

The budget confirms that the government will introduce technical amendments to the *Tobacco Tax Act* as part of its planned review to modernize this legislation.

Other tax changes

Tax system and tax administration system review

The budget announces that the government will review the province's tax system, including to assess the effectiveness of tax relief and supports and consider changes to update its tax administration tools.

We can help

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

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