



TaxNewsFlash

Canada

Highlights of the 2025 Ontario Budget

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Ontario's Finance Minister delivered the province's 2025 budget on May 15, 2025. The budget anticipates a deficit of \$6 billion for 2024-25 and projects deficits of \$14.6 billion for 2025-26 and \$7.8 billion for 2026-27. Although the budget does not include any new changes to the corporate or personal income tax rates, it confirms that qualifying businesses can defer payments for select Ontario taxes owed from April 1, 2025, to October 1, 2025, enhances and expands the Ontario Made Manufacturing Investment Tax Credit and indefinitely extends the current reduced tax rates on gasoline and fuel, among other changes.

Business tax changes

Corporate income tax rates

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

Corporate Income Tax Rates — As of January 1, 2025		
	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 tax deferral

The budget confirms that businesses who pay select provincially administered taxes can defer payments for taxes owed, without incurring interest and penalties, from April 1, 2025, to October 1, 2025. Note that Ontario businesses are required to continue to file their tax returns on time during this period. This measure is intended to support businesses facing uncertainty because of tariffs.

Ontario Made Manufacturing Investment Tax Credit (OMMITC)

The budget announces several enhancements to the Ontario Made Manufacturing Investment Tax Credit, including to temporarily increase the credit rate to 15% (from 10%). The enhanced credit is available for eligible expenditures up to a limit of \$20 million in a taxation year for specific capital investments. To qualify, machinery and equipment used in manufacturing or processing would need to be acquired and become available for use in a qualifying corporation's taxation year and in the period beginning on May 15, 2025, and ending before January 1, 2030. Capital investments in buildings used in manufacturing or processing would need to become available for use in a qualifying corporation's taxation year and in the period beginning on May 15, 2025, and ending before January 1, 2030.

In addition, the budget expands the OMITC by introducing a 15% non-refundable version of the credit for non-Canadian controlled private corporations (CCPCs) for capital investments in buildings, machinery and equipment used in manufacturing or processing in Ontario made on or after May 15, 2025, and before January 1, 2030. The temporary credit is available to non-CCPCs that make eligible investments in Ontario and that have a permanent establishment in Ontario. Eligible investments would be expenditures for certain capital property included in Class 1 or Class 53 (or Class 43(a) after 2025) for CCA purposes. The credit would be available for eligible investments up to a limit of \$20 million in a taxation year and would be pro-rated for a short taxation year. An associated group of corporations share the \$20 million limit. The budget also notes that the credit would include a carry-forward provision to allow any unused non-refundable credits to be applied against taxes payable in up to 10 subsequent taxation years.

The budget notes that there will be a provision to recapture the OMITC support where eligible capital property for which the credit was claimed is sold, converted to a non-manufacturing or processing use, or removed from Ontario within five years. This measure would apply to eligible capital property sold, converted to non-manufacturing or processing use, or removed from Ontario on or after May 15, 2025.

Ontario Shortline Railway Investment Tax Credit

The budget introduces a new temporary Ontario Shortline Railway Investment Tax Credit. This 50% refundable corporate income tax credit can be claimed for capital and labour expenditures for railway-related maintenance, and is limited to \$8,500 per track mile in Ontario. The credit is available for eligible expenditures made on or after May 15, 2025, and before January 1, 2030.

Personal tax changes

Personal income tax rates

The budget does not announce changes to personal income tax rates. As a result, Ontario's personal income tax rates effective January 1, 2025 are as follows:

Personal Combined Federal/Ontario Top Marginal Rates	
	2025
Interest and regular income	53.53%
Capital gains	26.76% ¹
Eligible dividends	39.34%
Non-eligible dividends	47.74%

¹ The capital gains rate is based on the legislated ½ inclusion rate.

Ontario Fertility Treatment Tax Credit

The budget introduces the Ontario Fertility Treatment Tax Credit, a new refundable credit that allows Ontario families to claim 25% on eligible expenses up to \$20,000, for a maximum tax credit of \$5,000 per year. Starting with the 2025 taxation year, eligible Ontario residents can apply for this credit when they file their annual income tax returns, even if they do not owe any personal income tax.

Indirect tax changes

Gasoline Tax and Fuel Tax Rates

The budget proposes to keep the current reduced tax rates on gasoline and fuel of 9 cents per litre. These reduced tax rates were scheduled to end on June 30, 2025.

Tax on Propane for Use in Licensed Road Vehicles

The budget eliminates the tax on propane used in licensed road vehicles, effective July 1, 2025. The budget notes that Ontario will provide guidance on this change in the near future.

Alcohol Taxes, Mark-Ups and Fees

The budget proposes several changes related to alcohol taxes, mark-ups and fees on alcoholic beverages, including to:

- Reduce the spirits basic tax rate to 30.75% (from 61.5%), effective August 1, 2025.
- Reduce the beer basic tax rates applicable to beer made by Ontario microbrewers to 17.98 cents per litre for draft beer (from 35.96 cents) and to 19.88 cents per litre for non-draft beer (from 39.75 cents), effective August 1, 2025
- Reduce the Liquor Control Board of Ontario (LCBO) basic mark-up rate applied to cider to 32.0% (from 60.6%), effective August 1, 2025

- Reduce the Liquor Control Board of Ontario (LCBO) basic mark-up rates applied to certain wine-based ready-to-drink beverages with an alcohol-by-volume content of no more than 7.1% to 48% (from 60.6/64.6%), effective August 1, 2025
- Reduce the Liquor Control Board of Ontario (LCBO) basic mark-up rates applied to certain spirit-based ready-to-drink beverages with an alcohol-by-volume content of no more than 7.1% to 48% (from 68.5/96.7%), effective August 1, 2025
- Allow qualifying microbrewers to enter into a contract with another brewer (that is not a microbrewer) for the production of beer for the microbrewer, while retaining its status as a microbrewer, subject to certain conditions, effective on Royal Assent
- Allow a brewer to qualify as a microbrewer, where the lesser of its average annual worldwide production of beer in the five preceding production years (or its annual worldwide production in the prior year) does not exceed 49,000 hectolitres, effective March 2, 2026
- Enhance the Small Beer Manufacturers' Tax Credit to reflect the proposed new beer basic tax rates for microbrewers (for eligible sales occurring on or after August 1, 2025), the new five-year-average rule and the new contracting rules
- Introduce a new taxable "alcohol refreshment beverages" category that would generally include ready-to-consume coolers, hard seltzers or other certain premixed cocktails made from spirits, wine, beer or fermented sugar, or from any combination of the four, that have an alcohol-by-volume content of no more than 7.1%, with details to follow after a public consultation.

Administrative and other changes

Property assessment information

The budget enables the Municipal Property Assessment Corporation (MPAC) to deliver assessment notices to property owners electronically rather than only by paper mail, starting in 2026. In addition, the budget creates regulatory authority to facilitate expanded municipal uses of MPAC's property assessment information.

The budget also notes that Ontario is evaluating potential tools to help municipalities manage their assessment base, including to provide centralized online access to assessment roll information rather than requiring on-site viewing in municipal offices.

Municipal tax

The budget removes Toronto's authority to implement a personal vehicle tax, bringing it in line with other municipalities. In addition, the budget allows municipalities to reduce the municipal property tax rate for eligible affordable rental housing units by up to 35%, starting in 2026.

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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