



TaxNewsFlash Canada

Highlights of the 2016 Ontario Budget

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Today Ontario Finance Minister Charles Sousa delivered the province's 2016 budget. The budget projects deficits of \$5.7 billion in 2016 and \$4.3 billion in 2017 and a balanced budget in 2018.

The budget does not include any Ontario tax rate changes for individuals or businesses. Changes to tax credits include rate reductions for the Ontario Research and Development Tax Credit and the Ontario Innovation Tax Credit and the elimination of some personal tax credits.

As expected, the budget provides updates on the implementation of the new Ontario Registered Pension Plan and Ontario's plans for a cap and trade program to reduce greenhouse gas emissions.

Highlights of tax measures in the budget are noted below.

Business Tax

Business tax rates

The budget did not include any changes to Ontario's corporate tax rates. As a result of the reduction in the federal small business income tax rate announced in the 2015 federal budget, the combined federal and Ontario corporate income tax rates will be as follows.

Combined Federal and Ontario Corporate Income Tax Rates – 2016-2019				
	2016	2017	2018	2019
General	26.5%	26.5%	26.5%	26.5%
M&P	25.0%	25.0%	25.0%	25.0%
Small business*	15.0%	14.5%	14.0%	13.5%

*on first \$500,000 of active business income

Business tax credits

Research and development tax credits

The government will reduce the rates for the Ontario Research and Development Tax Credit (ORDTC) and the Ontario Innovation Tax Credit (OITC).

The ORDTC rate will decrease to 3.5% (from 4.5%) and the OITC rate will decrease to 8% (from 10%), effective for eligible R&D expenditures incurred in taxation years ending on or after June 1, 2016. The rate reductions will be prorated for taxation years straddling June 1, 2016.

The government says it will reinvest the savings from the tax credit changes into new targeted investments across key sectors of Ontario's economy.

Apprenticeship training tax credit

Ontario is currently reviewing the Apprenticeship Training Tax Credit, as announced in the province's 2015 budget. Further details will be announced in 2016.

Ontario Registered Pension Plan

The budget states that final elements of the plan design for the new Ontario Registered Pension Plan (ORPP) were announced in January 2016. These elements will be outlined in legislation to be introduced in spring 2016. The legislation will focus on employer eligibility, benefit calculations and the compliance and enforcement regime.

The ORPP Administration Corporation will launch an employer verification and enrolment process in 2017, with employer and employee contributions collection beginning in 2018.

The budget includes an updated timeline for the phase-in of employer contribution rates. Employee contribution rates will match the rates for employers. The contribution rate applies to pensionable earnings up to a maximum amount of \$90,000.

ORPP Phase-in and Contribution Schedule				
Type of employer	Jan 1, 2018	Jan 1, 2019	Jan 1, 2020	Jan 1, 2021
Large employers without registered workplace pension plans	0.8%	1.6%	1.9%	1.9%
Medium employers without registered workplace pension plans	0.8%	1.6%	1.9%	1.9%
Small employers without registered workplace pension plans	0%	0.8%	1.6%	1.9%
Employers with registered pension plans that either do not meet the comparability test or do not cover all classes of employees	0%	0%	1.9%	1.9%

Cap and trade program

Ontario introduced legislation on February 24, 2016 to implement its cap and trade program to reduce greenhouse gas emissions. The budget includes details of the program, which will take effect on January 1, 2017.

Ontario's cap and trade program would place a cap on greenhouse gas emissions, create tradable emissions allowances for a given period and require covered emitters to hold allowances equal to their emissions in that period. The program would allow those who reduce their emissions to sell their excess allowances in the carbon market.

Personal Tax

Personal tax rates

No personal tax rate changes were announced in the 2016 Ontario budget. As a result, the combined Ontario and federal top marginal tax rates for income over \$220,000 will be as follows for 2016.

Ontario-Federal Combined Top Marginal Personal Tax Rates for 2016			
Salary	Capital gains	Eligible dividends	Non-eligible dividends
53.53%	26.76%	39.34%	45.30%

Non-eligible dividend tax credit

The federal government announced in its 2015 budget that it would reduce the federal small business corporate income tax rate over four years. As a result, the federal gross-up factor and dividend tax credit rate that apply to non-eligible dividends also changed. These dividends are generally paid by companies taxed at the small business rate.

Ontario will review its non-eligible dividend tax credit rate for 2017 and later years in response to the federal change to the gross-up factor.

Tax on split income

Ontario will parallel the federal approach to taxing income that is split with certain related minor children. This approach applies the top marginal personal income tax rate to all such split income. As a result, such split income will be taxed at Ontario's top marginal personal income tax rate of 20.53%, starting January 1, 2016. No surtax will be payable on that income.

Personal tax credits

Tuition and education tax credits

Ontario will discontinue the Ontario tuition and education tax credits, beginning in September 2017. Unused credits will still be available for carryforward.

The budget states that all of the additional revenue from eliminating the tuition and education tax credits would be reinvested to support a new Ontario Student Grant or other postsecondary, education, training and youth jobs programs.

The budget also announced changes to Ontario's student aid, including making average tuition free for students with financial need from families with incomes of \$50,000 or lower.

Other personal tax credits

Ontario will discontinue the Children's Activity Tax Credit and the Healthy Homes Renovation Tax Credit, as of January 1, 2017.

Simpler personal income tax

The government will examine ways to simplify the personal income tax calculation, including the Ontario surtax and Ontario Tax Reduction, with the goal of helping Ontarians better understand their effective tax rates.

Administration

Underground economy

Ontario is prepared to move forward with its plan to launch specialized audit teams to focus on sectors that are at a high risk of underground economic activity, in partnership with the CRA. The budget states that these teams will consist of specialized auditors who will use advanced analytics and innovative enforcement tools.

Other Tax Measures

Tobacco and alcohol taxes

Tobacco tax

Ontario's tobacco tax will increase to 15.475 cents per cigarette and per gram of tobacco products other than cigars (from 13.975 cents), effective 12:01 a.m. the day after February 25, 2016. Further, the tobacco tax rates will increase based on inflation over the next five years, beginning in 2017.

Alcohol tax

The LCBO will increase the ad valorem mark-up for wine products by two percentage points in April 2017, two percentage points in April 2018 and one percentage point in April 2019.

Ontario will establish a definition of authorized grocery stores and provide for the collection of tax in those stores.

The basic tax on non-Ontario wine purchased at winery retail stores will increase by one percentage point in each of June 2016, April 2017, April 2018 and April 2019.

The minimum retail price for table wine will increase to \$7.95, including deposit, for a 750 ml bottle, phased in over three years.

Minimum retail prices for cider, fortified wine and low-alcohol wine will also be phased in over three years.

The government also proposes to introduce legislation in the future to establish higher basic wine tax rates for sales at winery retail outlets that operate inside grocery stores and replace the current mark-up and commission structure at on-site distillery retail stores with a tax on purchases of spirits.

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 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 and help you bring any concerns you may have to the attention of the Ontario Ministry of Finance.

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