

## Highlights of the 2015 Ontario Budget

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Today Ontario Finance Minister Charles Sousa delivered the province's 2015 budget. The budget projects a deficit of \$8.5 billion in 2015, a deficit of \$4.8 billion in 2016 and a return to balance in 2017.

The budget does not include any changes to Ontario's tax rates for individuals or corporations. As a result of federal changes, the combined Ontario and federal small business income tax rate will decrease between 2015 and 2019 and the Ontario and federal personal tax rates for non-eligible dividends will increase.

Ontario announced changes to some of its business tax credits, including the Apprenticeship Training Tax Credit, the Ontario Interactive Digital Media Tax Credit and the Film and Television Tax Credits. Ontario also announced ongoing consultations for the proposed Ontario Retirement Pension Plan and a cap-and-trade system.

Highlights of tax measures in the budget are noted below.

### Personal Tax

#### Personal income tax rates

Ontario did not announce any changes to its personal income tax rates. As a result of changes to the gross-up factor and federal dividend tax credit rate that applies to non-eligible dividends announced in the 2015 federal budget, the combined Ontario and federal tax rates for non-eligible dividends will increase between 2015 and 2019.

It remains to be seen whether Ontario will change its dividend tax credit rate for non-eligible dividends in response to the federal change to the gross-up factor. Currently, the federal and Ontario top marginal rates for non-eligible dividends are as follows.

<b>Federal and Ontario Top Marginal Tax Rates for Non-Eligible Dividends– 2015-2019</b>					
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Ontario	18.9%	19.0%	19.0%	19.1%	19.2%
Federal	<u>21.2%</u>	<u>21.6%</u>	<u>22.2%</u>	<u>22.6%</u>	<u>23.0%</u>
Combined	40.1%	40.6%	41.2%	41.7%	42.2%

The combined federal and Ontario top marginal tax rates on income other than non-eligible dividends for 2015 are as follows:

<b>Combined Federal and Ontario Top Marginal Tax Rates for 2015</b>	
Interest and regular income	49.5%
Capital gains	24.8%
Eligible dividends	33.8%

### **Trusts and estates**

Ontario will parallel the federal changes to the taxation of trusts and estates by applying the highest personal income tax rate to all trusts, with some exceptions, beginning in 2016.

Graduated federal rates will continue to apply for the first 36 months of eligible estates (graduated rates estates) and to testamentary trusts that have beneficiaries eligible for the federal Disability Tax Credit (qualified disability trusts).

Ontario will apply graduated Ontario rates and the Ontario surtax to graduated rate estates and qualified disability trusts in Ontario. All other trusts taxable in Ontario will pay the province's top marginal personal tax rate on all their taxable income.

Ontario will increase the tax credit rate for charitable donations over \$200 to 17.41% for trusts that pay the top marginal personal tax rate.

## Ontario Retirement Pension Plan

The budget states that the Ontario government is committed to moving forward with a new mandatory provincial pension plan to be called the Ontario Retirement Pension Plan (ORPP). The government intends to introduce legislation that would finalize details of the plan before January 2017.

The government is currently considering feedback and considering further analysis from consultations on three ORPP design questions:

- Scope of the plan
- Minimum earnings threshold
- Supporting the self-employed.

## Business Tax

### Corporate income tax rates

Ontario's 2015 budget has not changed the province'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:

Corporate Federal and Ontario Corporate Income Tax Rates – 2015-2019					
	2015	2016	2017	2018	2019
General	26.5%	26.5%	26.5%	26.5%	26.5%
M&P	25.0%	25.0%	25.0%	25.0%	25.0%
Small business*	15.5%	15.0%	14.5%	14.0%	13.5%

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

### Apprenticeship Training Tax Credit

The general rate for the Apprenticeship Training Tax Credit rate will be reduced to 25% (from 35%). The rate for small businesses with salaries or wages under \$400,000 per year will be reduced to 30% (from 45%). The annual maximum per apprentice will be reduced to \$5,000 (from \$10,000). The eligibility period will be reduced to the first 36 months of an apprenticeship program from the first 48 months.

These changes are effective for eligible expenditures related to apprentices who commenced an apprenticeship program after April 23, 2015.

### **Ontario Interactive Digital Media Tax Credit**

The eligibility criteria of the Ontario Interactive Digital Media Tax Credit will be narrowed by focusing the credit on entertainment products and educational products for children under 12. The change will apply to expenditures incurred after April 23, 2015. Products started before April 24, 2015 that would no longer be eligible for the credit would be eligible for relief for expenditures incurred before April 24, 2015. The budget says further information about the change will be provided in a bulletin.

The budget also amends the certification process for this credit to require that 80% of total labour costs for eligible products be attributable to qualifying wages and qualifying remuneration paid to individuals or corporations that carry on a personal services business. As well, 25% of total labour costs for eligible products would be required to be attributable to qualifying wages of employees of the qualifying corporation.

The new rule would apply to all products, including those awaiting certification. The new rule would not apply to products certified before April 24, 2015.

### **Film and Television Tax Credits**

#### *Ontario Production Services Tax Credit*

The Ontario Production Services Tax Credit rate will be reduced to 21.5% (from 25%) of qualifying production expenditures incurred after April 23, 2015.

Further, a qualifying corporation's Ontario labour expenditures (including labour under a service contract) will have to amount to at least 25% of total expenditures. Ontario will also limit expenditures incurred by a qualifying corporation for contracts with non-arm's length parties to amounts that would have been eligible for the credit if the corporation had incurred the expenditures directly.

Finally, the credit requirements will be clarified to ensure that only expenditures incurred after the final script stage to the end of the post-production stage will be eligible for the credit, effective for expenditures incurred after June 30, 2009.

#### *Ontario Computer Animation and Special Effects Tax Credit*

The Ontario Computer Animation and Special Effects Tax Credit rate will be reduced to 18% (from 20%) for expenditures incurred after April 23, 2015. Productions started after April 23, 2015 must also receive the Ontario Film and Television Tax Credit or the Ontario Production Services Tax Credit in order to claim the Ontario Computer Animation and Special Effects Tax Credit.

### *Ontario Film and Television Tax Credit*

Ontario does not treat government equity investments as assistance that would reduce eligible expenditures for the Ontario Film and Television Tax Credit. The Ontario government will enable this treatment to continue despite changes to the federal Canadian Film or Video Production Tax Credit to treat government equity investment in a production as assistance that reduces eligible expenditures for the credit.

### **Ontario Sound Recording Tax Credit**

Ontario will eliminate the Ontario Sound Recording Tax Credit. An expenditure incurred after April 23, 2015 will only qualify for the credit if the eligible sound recording was commenced before April 23, 2015, the expenditure was incurred before May 1, 2016 and an Ontario Music Fund grant is not received for the expenditure.

### **Ontario Resource Tax Credit and Additional Tax on Crown Royalties**

Ontario will eliminate the Ontario Resource Tax Credit and the Additional Tax on Crown Royalties that are provided in lieu of a deduction for royalties and mining taxes and will provide a deduction for royalties and mining taxes paid, effective April 23, 2015.

Accrued but unused Ontario Resource Tax Credit amounts will be eligible for carryforward to offset Ontario income taxes payable in the first five taxation years beginning after April 23, 2015.

## **Other Measures**

### **Cap-and-trade system**

The budget states that Ontario intends to join Quebec and California in moving forward with a cap-and-trade system as its carbon pricing mechanism. The province will consult with stakeholders throughout the summer of 2015 as it develops the design of a cap-and-trade program. In the fall of 2015, Ontario will release “a comprehensive strategy to address climate change”.

### **Transfer tax for electricity assets**

The budget states that Ontario is committed to spurring consolidation and encouraging efficiencies in the electricity distribution sector and that private capital can play an important role in facilitating consolidation.

Municipal electricity utilities (MEUs) are subject to a transfer tax of 33% on the fair market value of electricity assets sold to the private sector, less any payments in lieu of taxes or Ontario corporate income tax paid up to the time of transfer.

The budget will reduce this transfer tax rate to 22% (from 33%), exempt MEUs with fewer than 30,000 customers from the transfer tax, and exempt gains arising under the payment in lieu of tax deemed disposition rules.

These changes are effective for transfers of electricity assets for all MEUs, including transfers to the private sector, for the period beginning January 1, 2016 and ending December 31, 2018.

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