



TaxNewsFlash

Canada

Highlights of the 2026 Ontario Budget

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Ontario's Finance Minister delivered the province's 2026 budget on March 26, 2026. The budget anticipates a deficit of \$12.3 billion for 2025-26 and projects deficits of \$13.8 billion for 2026-27 and \$6.1 billion for 2027-28. Among other changes, the budget decreases Ontario's small business income tax rate to 2.2% (from 3.2%) effective July 1, 2026, and consequentially increases the non-eligible dividend tax rate (effective January 1, 2027). Although the budget introduces a temporary one-year enhancement of the current rebate related to the provincial portion of the HST for buyers of new houses and condos, the budget also announces that Ontario will eliminate the current provincial portion of the HST rebate for new homes when the temporary enhanced rebate ends. Following the budget release, Ontario released Bill 97, which includes many of the budget measures.

Business tax changes

Corporate income tax rates

The budget decreases Ontario's small business income tax rate to 2.2% (from 3.2%). This change is effective July 1, 2026, with the rate reduction prorated for taxation years straddling July 1, 2026. As a result, Ontario's corporate income tax rates are as follows for 2026:

Corporate Income Tax Rates — As of January 1, 2026		
	Ontario	Combined Federal and Ontario
General	11.50%	26.50%
M&P	10.00%	25.00%
Small business ¹	3.20%/2.20% ²	12.20%/11.20% ²

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

² Ontario's small business income tax rate decreases to 2.2% (from 3.2%), effective July 1, 2026.

Immediate expensing

As expected, the budget harmonizes with federal measures to allow businesses to claim accelerated capital cost allowance (CCA) and immediate expensing for the cost of certain depreciable assets, in parallel with changes announced by the federal government. These changes allow:

- Immediate expensing (100% of capital cost) for manufacturing and processing (M&P) machinery and equipment, M&P buildings, greenhouse buildings, certain clean technology assets and zero-emission vehicles
- Immediate expensing (100% of capital cost) for productivity-enhancing assets
- Immediate expensing (100% of capital cost) for capital expenditures for R&D
- Accelerated CCA for liquefied natural gas equipment and related buildings
- Accelerated CCA of 10% (from 4%) for purpose-built rental housing
- Accelerated CCA parallel to the federal Reaccelerated Investment Incentive (RII) resulting in first-year CCA claims of up to three times the regular amount for most other depreciable assets.

Regional Opportunities Investment Tax Credit

The budget eliminates the Regional Opportunities Investment Tax Credit, effective January 1, 2027. The budget notes that expenditures incurred on or before December 31, 2026 would continue to be eligible for the credit.

Personal tax changes

Non-eligible dividend tax rate increased

The budget increases the non-eligible dividend tax rate by reducing Ontario's non-eligible dividend tax credit to 1.99% (from 2.99%), effective January 1, 2027. As a result, Ontario's top marginal personal income tax rates effective January 1, 2026 and 2027 are as follows:

Personal Combined Federal/Ontario Top Marginal Rates		
	January 1, 2026	January 1, 2027
Interest and regular income	53.53%	53.53%
Capital gains	26.76%	26.76%
Eligible dividends	39.34%	39.34%
Non-eligible dividends	47.74%	48.89%

Indirect tax changes

Temporary enhanced HST relief on new homes

The budget confirms the temporary enhanced Ontario Harmonized Sales Tax (HST) New Housing Rebate and New Residential Rental Property Rebate to effectively remove the 8% provincial portion of the HST paid for certain qualifying new homes. The enhanced rebates are expected to be available from April 1, 2026 to March 31, 2027.

The maximum rebate amount after the enhancement would be \$80,000 for a new home valued at or under \$1 million, with that amount being maintained for new homes valued up to \$1.5 million. The maximum amount of the rebate would follow a linear reduction for higher-valued homes, down to \$24,000. Currently under these rebates, purchasers are eligible for a 75% rebate of the provincial portion of the HST up to a maximum rebate of \$24,000 on purchases of a qualifying new or substantially renovated homes.

Elimination of relief on new homes

The budget eliminates the current maximum rebate of \$24,000 related to the provincial HST New Housing Rebate and New Residential Rental Property Rebate after March 31, 2027, coinciding with the end of the temporary enhanced HST relief.

Expanding HST Relief for first-time home buyers on new homes

The budget also plans to align Ontario's proposed provincial HST rebate for first-time home buyers with the effective date of the federal GST/HST First-Time Home Buyers' Rebate so that the Ontario and federal rebates would be available if the agreement of purchase and sale for the home is entered into with the builder on or after March 20, 2025, and before 2031.

Alcohol taxes

The budget simplifies the taxation of beer, wine and spirits by introducing single rates to replace the separate basic, volumetric and environmental taxes, effective April 1, 2026.

The budget introduces a single tax rate for beer by combining the basic, volumetric and environmental beer taxes. For beer manufacturers, this rate will be \$1.18 per litre for non-draft and \$0.90 per litre for draft beer, and for microbrewers this rate will be \$0.46 per litre for non-draft and \$0.36 per litre for draft beer.

The budget also introduces a single tax rate for wine by combining the basic, volumetric and environmental wine taxes. For Ontario wines and wine coolers in on-site winery retail stores, a single 0% rate will apply, while non-Ontario wines and wine coolers in on-site winery retail stores will be subject to a 19.1% rate. Owner wines and wine coolers sold in off-site winery retail stores will be subject to a single rate of 12%.

The budget introduces new tax rates for spirits by combining the basic, volumetric and environmental spirit taxes, and introducing new categories distinguished by alcohol by volume (ABV). The rates will apply to these categories as follows:

- 7.1% or below — 20%
- Greater than 7.1% to 18% — 25%
- Greater than 18% — 30.75%

The budget also adjusts the Small Beer Manufacturers' Tax Credit (SBMTC) to account for the proposed beer tax rate changes, including to increase the maximum benefit for eligible small beer manufacturers.

As part of this change, Ontario says it will defer the requirement for tax filing and reporting to July 2026 (from April 2026). Specifically, taxpayers will not be liable for interest or penalties as long as the April to July returns are filed by the July return due date of August 20, 2026.

Insurance Premium Tax

The budget allows funded benefit plans to elect to be treated as unfunded benefit plans relating to the timing of the Insurance Premium Tax, effective April 1, 2026. As a result of this change, planholders of the benefit plans can make an election that would trigger an Insurance Premium Tax liability once benefits are paid out of the plan (instead of when contributions are paid into the plan).

Technical amendments

The budget also includes certain technical amendments, including changes to:

- Clarify the calculation of the Ontario Computer Animation & Special Effects Tax Credit with respect to the minimum labour expenditure threshold
- Adopt the federal government's provisions regarding proof of sending certain items by mail, personal service and electronic delivery
- Adopt the federal government's provision regarding when certain periods of time are not to be counted when computing the period of time that an assessment may be made of a taxpayer.
- Allow First Nation individuals who are registered under the federal *Indian Act* to be excluded from the application of the Non-Resident Speculation Tax (NRST)
- Clarify the application of the conversion framework from a single employer pension plan to a jointly sponsored pension plan in the *Pensions Benefits Act*.

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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