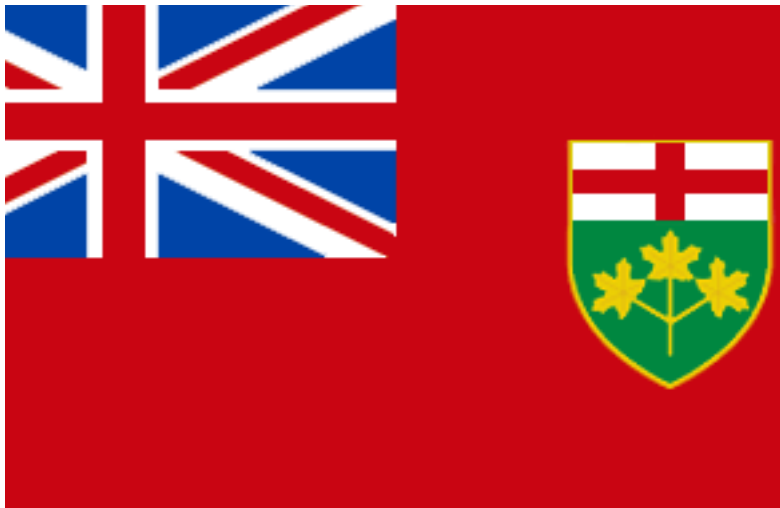


Ontario Budget Commentary

March 28, 2018



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INTRODUCTION

On March 28, 2018, Ontario's Finance Minister Charles Sousa delivered the 2018 budget. This budget anticipates a surplus of \$500 million in 2017-18 and deficits of \$6.7 billion for 2018-19 and \$6.6 billion for 2019-20.

The budget also includes changes to Ontario's personal income tax rates and brackets. No changes to corporate income tax rates were announced but the budget also provides increases to the Ontario Research and Development Tax Credit and the Ontario Innovation Tax Credit.

TAX MEASURES AFFECTING INDIVIDUALS

PERSONAL INCOME TAX RATES

The budget proposes to eliminate Ontario's surtax and adjust the personal income tax brackets and rates, effective for 2018.

Changes to source deduction payments would begin on July 1, 2018.

The proposed changes to the personal income tax rates and brackets and the elimination of the surtax would not change top marginal income tax rates. Effective January 1, 2018, these rates would remain as follows:

Personal Combined Federal/Ontario Top Marginal Tax Rates	
Type of Income	2018
Salary and other income	53.53%
Capital gains	26.76%
Eligible dividends	39.34%
Non-eligible dividends	46.84%

TAX MEASURES AFFECTING BUSINESSES

CORPORATE INCOME TAX RATES

There are no proposed changes to Ontario's corporate tax rates. As a result, the province's corporate income tax rates would remain as follows:

Corporate Combined Federal/Ontario Tax Rates	
Income	Combined Federal and Ontario
General Income	26.50%
Manufacturing and Processing income	25.00%
Small Business Income *	13.50% **

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

** Assumes Federal proposal to reduce the federal small business tax rate to 10% as of January 1, 2018 will be implemented.

ONTARIO RESEARCH AND DEVELOPMENT TAX CREDIT

The Ontario Research and Development Tax Credit is a 3.5% non-refundable tax credit on eligible R&D expenditures. The budget proposes that companies that qualify for this credit would be eligible for an increased rate of 5.5% for eligible expenditures over \$1 million in a taxation year, effective for expenses incurred on or after March 28, 2018. The \$1 million threshold would be prorated for short taxation years.

The increased credit rate would not be available for businesses where eligible R&D expenditures in the current taxation year are less than 90% of eligible R&D expenditures in the prior taxation year.

The increased credit rate would be prorated for taxation years straddling March 28, 2018.

ONTARIO INNOVATION TAX CREDIT

The Ontario Innovation Tax Credit is an 8% refundable tax credit for small to medium-sized companies on eligible R&D expenditures. The budget proposes to change this rate as follows.

If a company qualifies for the credit and has a ratio of R&D expenditures to gross revenues that is:

- 10% or less, the company would remain eligible for the 8% credit rate
- Between 10% and 20%, the company would be eligible for an enhanced credit rate that would increase from 8% to 12% on a straight-line basis as the company's ratio of R&D expenditures to gross revenue increases from 10% to 20%, and
- 20% and above, the company would be eligible for a 12% credit rate.

This change applies to eligible R&D expenditures incurred on or after March 28, 2018. The rate changes would be prorated for taxation years straddling March 28, 2018.

For purposes of this calculation, both the gross revenues and R&D expenditures must be attributable to Ontario operations. Gross revenues and R&D expenditures attributable to Ontario operations of associated companies would be combined.

ONTARIO INTERACTIVE DIGITAL MEDIA TAX CREDIT

The budget proposes to extend the eligibility for the Ontario Interactive Digital Media Tax Credit to film and television websites purchased or licensed by a broadcaster and embedded in the broadcaster's website. This change would apply to websites that host content related to film, television or internet productions that have not received either a certificate of eligibility or letter of ineligibility before November 1, 2017.

EMPLOYER HEALTH TAX EXEMPTION

The Employer Health Tax (EHT) exemption allows certain Ontario employers to not have to pay the EHT.

The budget proposes that the EHT exemption will follow the eligibility criteria for the federal SBD, effective January 1, 2019. As a result, the EHT exemption would only be available to individuals, charities, not-for-profit organizations, private trusts and partnerships and Canadian-controlled private corporations.

Ontario would incorporate federal anti-avoidance rules related to the multiplication of the SBD into the Employer Health Tax Act. Ontario would also determine the EHT rate for associated employers in a way that is consistent with the application of the EHT exemption threshold for these employers.

INDIRECT TAX CHANGES

CANNABIS TAX

Ontario intends to enter into an agreement with the federal government under which Ontario would receive 75% of the federal excise duty collected on cannabis intended for sale in the province.

LAND TRANSFER TAX

A new regulation would allow land transfer tax arising from certain unregistered dispositions of a beneficial interest in land through certain types of partnerships and trusts to be payable 30 days after the end of the calendar quarter in which the disposition occurred, rather than within 30 days of the disposition.

TOBACCO TAX

Ontario's tobacco tax will increase to 18.475 cents per cigarette (from 16.475 cents) and per gram of tobacco products other than cigars, effective 12:01 am, March 29, 2018. These changes are equivalent to \$4 per carton of cigarettes. The government plans to further increase the tobacco tax rate by an additional \$4 per carton of cigarettes in 2019.

Please contact your Lipton LLP advisor if you would like to discuss these matters further.



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