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Tax advice Articles

March 2009



Ontario 2009 Budget: Summary

(By: Jacques F. Liwanpo, CA CFP
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On March 26, 2009 the Ontario Government tabled its 2009 Budget. Here is a summary of the principal tax measures contained in the Budget.

SALES TAX HARMONIZATION:

The Budget proposes to eliminate Ontario's retail sales tax and to adopt a federally administered, single value-added sales tax ("harmonized tax") beginning July 1, 2010. The harmonized tax will be comprised of the federal goods and services tax ("GST") of 5% and the former provincial retail sales tax of 8%, for a combined rate of 13%.

To help families and businesses adjust, Ontario proposes to:

- ❖ exempt books, children's clothing and footwear, diapers, children's car seats and car booster seats and feminine hygiene products from the eight per cent provincial portion of the tax

- ❖ ensure that newly constructed homes under \$400,000 would not be subject to an additional tax burden. Buyers of new homes valued between \$400,000 and \$500,000 could also claim a proportional rebate. The single sales tax would not apply to resale homes

- ❖ help small businesses make the transition to a single sales tax by providing up to \$400 million in one-time transition support through a sales tax credit.

- ❖ businesses would save more than \$500 million a year in paperwork costs.

TAX RELIEF FOR PEOPLE AND FAMILIES:

To help people and families adjust to the new single sales tax, the government would provide permanent tax relief and direct payments; 93 per cent of Ontario taxpayers would pay less personal income tax.

Eligible families with an income below \$160,000 would receive three payments from the provincial government, totaling \$1,000.

Eligible individuals with an income of less than \$80,000 would receive three payments totaling \$300. The first payment would arrive in June 2010, the second in December 2010 and the third in June 2011.

The provincial government would also provide:

- ❖ permanent tax relief for people with low and middle incomes through one of the most generous refundable sales tax credits in Canada. This new credit would provide up to \$260 per year for each adult and child.

- ❖ a 16.5 per cent cut in the tax rate on the first \$36,848 of taxable income earned by all Ontarians.

Ontario Personal Income Tax Rates (%)

Taxable Income	Current (2009)	Proposed (2010)
\$0–\$36,848	6.05	5.05
\$36,848–\$73,698	9.15	9.15
> \$73,698	11.16	11.16

¹ Taxable income thresholds will be adjusted in 2010 and future years to reflect Ontario inflation.

TAX CUTS FOR BUSINESS:

To help businesses become even more competitive, the government would provide tax cuts for businesses — especially small businesses. These tax cuts would lead to more jobs and a stronger, more competitive economy. Beginning July 1, 2010, the government would:

- ❖ cut the Corporate Income Tax (CIT) rate for small businesses by 18 per cent
- ❖ cut the general CIT rate by 14.3 per cent. It would be further reduced by 16.7 per cent over the next three years
- ❖ cut the Ontario Manufacturing and Processing CIT rate — which includes businesses like farming, fishing, mining and logging — by 16.7 per cent
- ❖ eliminate the small business surtax — Ontario would be the only jurisdiction in Canada to end this barrier to growing small businesses
- ❖ exempt more small and medium-sized businesses from the Corporate Minimum Tax and cut the rate for large businesses by 32.5 per cent.

- ❖ enhance capital cost allowance (CCA) provisions - the CCA rate for new eligible computers and software would be increased from 55% to 100%, paralleling a measure in the 2009 Federal Budget

- ❖ the accelerated CCA rate for manufacturing and processing equipment would be extended to equipment acquired before 2012, paralleling a measure in the 2009 Federal Budget

- ❖ enhance various tax credits :

- the income range at which the 10% Ontario Innovation Tax Credit is phased out would be increased from \$400,000-\$700,000 to \$500,000-\$800,000, paralleling a measure in the 2009 Federal Budget.

- the previously announced 35% rate for the Ontario Film and Television Tax Credit would be made permanent.

- the previously announced 25% rate for the Ontario Production Services Credit would be made permanent.



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❖ the rate for the Ontario Interactive Digital Media Tax Credit and the Ontario Computer Animation and Special Effects Tax Credit would be increased

❖ On Jan 1, 2010, capital tax rates will be reduced by one-third and the tax will be fully eliminated on July 1, 2010.

Once fully implemented, the comprehensive tax reform package would cut Ontario's marginal effective tax rate on new investment in half. This would make Ontario one of the most competitive jurisdictions in the industrialized world for new investment.