

# TAXING TIMES

## *AND OTHER ISSUES*



## ONTARIO BUDGET 2003

### NOTICE TO READER

The following commentary has been prepared by Parker Garber & Chesney, LLP based on the budget papers presented by the Ontario Minister of Finance on March 27, 2003. Parker Garber & Chesney, LLP does not ensure the accuracy of the information herein provided that may result from errors or omissions in the budget documents. All calculations provided are based on existing rates as at the date of the budget and do not anticipate changes in Federal or Provincial rates after the date of the budget.

Readers are cautioned that this commentary is informational only and that any issues specific to the reader's needs be addressed with the appropriate tax professional.

## **BUDGET SUMMARY**

In her first budget, Finance Minister Janet Ecker has announced Ontario's fifth consecutive balanced budget. The controversy concerning the method of presenting the budget aside, the government will table the legislation when it reconvenes the Legislature on April 30. However, readers should be warned that it is expected that an election will be called shortly and, depending on the outcome, these proposals may never see the light of day.

## **PERSONAL TAX CHANGES**

### **SURTAX THRESHOLDS**

The government has confirmed the timetable for the continuing reduction in personal income tax rates with the final 20% reduction taking effect on January 1, 2004. The only personal tax rate reduction new to this budget is the elimination of the surtax for people earning less than \$75,000 beginning January 1, 2005. This combines with the removal of the current first tier surtax threshold of 20% on income over \$59,000 effective January 1, 2004 (previously announced) and raises the second tier surtax threshold of 36% on income over \$69,000 for 2003 and 56% for income over \$70,400 for 2004 to 56% on income over \$75,000 for 2005. The surtax is a tax on the tax otherwise calculated for Ontario purposes.

### **EQUITY IN EDUCATION TAX CREDIT**

This long-awaited move to introduce some measure of fairness to families whose children attend private, religious or special needs schools was delayed last year but the original schedule will be implemented resulting in the rates increasing to 20% for 2003, 30% for 2004, 40% for 2005 and 50% for 2006 and beyond. The maximum tuition fees that will be eligible for these credits will remain at \$3,500 for children under 6 and \$7,000 for children 6 years and older.

### **PROPERTY TAX RELIEF FOR SENIORS**

The budget proposes to provide property tax relief to seniors by refunding to eligible seniors the full amount of the residential property tax on their principal residence. The program will be available to seniors who are owners or tenants who file an application to be made available. This credit will be available for all property taxes effective July 1, 2003.

### **LAND TRANSFER TAX ON LIFE LEASES**

Life leases are a rather new phenomenon in Ontario, providing housing to seniors with an exclusive right to occupy the home for life with the property reverting to the operator upon the death of the owner. These transactions will be exempt from land transfer tax if the vendor of the life lease is a registered charity

or non-profit organization. It appears that the exemption will be retroactive for prior transactions.

#### DISABILITY TAX CREDIT (DTC) AND RELATED ITEMS

Ontario has announced some improvements to the tax credit system available for people with disabilities and their caregivers effective for 2003.

- The disability tax credit will increase from \$6,316 to \$6,637.
- The caregiver credit and will be increased from \$3,684 to \$6,637 and will be expanded to include spouses or common-law partners who are dependent by reason of mental or physical infirmity and to caregivers living apart from dependent relatives.
- The infirm dependant credit and will also be increased from \$3,684 to \$6,637 and expanded to include spouses or common-law partners who are dependent by reason of mental or physical infirmity and to caregivers living apart from dependent relatives.
- The income levels for reduction of the caregiver and infirm dependant credits will be increased to \$13,050 and will be eliminated at \$19,687.
- The disability credit supplement for children will increase from \$3,684 to \$6,637.

#### CORPORATE TAX CHANGES

##### TAX RATES

The budget confirms the timetable for reducing various rates as follows:

- The rate for small business income will reduce to 5% for 2004 and 4% for 2005;
- Manufacturing and processing rates will be reduced to 10% for 2004, 9% for 2005 and 8% for 2006;
- General corporate rates will be reduced to 11% for 2004, 9.5% for 2005 and 8% for 2006.

Ontario's combined small business rates will continue to be:

17.5% on the first \$225,000  
26.5% on the next \$75,000  
31.62% on the next \$20,000  
37.12% over \$320,000

#### CAPITAL TAX

The budget proposes reducing all capital taxes by 10% effective for 2004. For most corporations paying the regular capital tax the rate will go from 0.3% of taxable capital to 0.27%. It was also announced that Ontario will eliminate capital taxes completely on the same timetable as set by the federal budget.

#### SELF-GENERATED ELECTRICITY

Ontario corporations using their own assets to generate electricity from alternative or renewable energy sources will be provided an additional 100% deduction for the cost of qualifying assets.

#### OTHER CORPORATE MEASURES

Some of the additional measures announced in the budget are:

- A 10% refundable tax credit for businesses that hire eligible apprentices in a qualifying skilled trade of up to \$250 per month for 24 months;
- Enhanced Ontario Film and Television Tax credits eliminating the reduction of the credit for equity investments from government agencies;
- Improved access to capital for small companies through Labour-Sponsored Investment Funds;
- The Ontario Business Corporations Act will be amended to allow the government to force corporate dissolutions and withhold clearance certificates for corporations owing Retail Sales Tax, Employer Health Tax or Land Transfer Tax;
- Effective April 30, 2003 all corporations that do not file Ontario tax returns or Exempt from Filing declarations will be issued default notices and be subject to late-filing penalties, corporate dissolution or prosecution of the directors.

#### OTHER TAX MEASURES

The budget proposes to expand the exemption from land transfer tax to include transfers of farmland between family members effective March 28, 2003.

Retail sales tax rebates will be expanded to include charitable organizations purchasing building materials for the construction of buildings they own or for long-term lease.

Changes in the Ontario Child Care Supplement rules increase the threshold at which the benefits are reduced from \$20,000 to \$20,750. The benefits will remain at \$1,100 per child under seven and \$1,310 for single working parents.