

TAXBULLETIN

WILKINSON TAX GROUP

Ontario Provincial Budget February 25, 2016

On February 25, 2015, Ontario's Finance Minister Charles Sousa delivered this year's provincial budget. Among some of the significant changes proposed are new grants to cover the tuition costs of post-secondary education for low-income households, new taxes on cigarettes and alcohol and a carbon "cap-and-trade" system as a push towards green initiatives, which is anticipated to increase the cost of gas and heating fuel.

Some of the significant tax changes proposed in the Budget are as follows:

Personal Income Tax Measures

Tuition and Education Tax Credits

Currently, the payment of tuition and the number of full or part time months enrolled in a post-secondary educational institution generates tuition and education tax credits. In light of the additional investment the budget proposes providing additional funding and grants for students, the Budget proposes to eliminate the Provincial tuition and education tax credits.

The tuition and education tax credits would be available in respect of eligible tuition fees paid in respect of studies up to and including September 4, 2017. Taxpayers who are residents in Ontario on December 31, 2017, and have unused tuition and education tax credits available for carry-forward would be able to claim them in future years. Taxpayers who move to Ontario from other provinces after December 31, 2017 would no longer be able to claim their accumulated tuition and education tax credits in Ontario.

The federal tuition, education and textbook amounts still remain. With the removal of the provincial portion of the tax credits the effective tax credit has been reduced to 15% from 20.05%.

Children's Activity Tax Credit

The Children's Activity Tax Credit was introduced in 2010, which provides a refundable tax credit for parents that enrol their children in various extracurricular activities including sports, arts and cultural programs (up to a maximum cost of \$551 per child in 2015).

The Budget proposes to eliminate this credit effective January 1, 2017.

Healthy Homes Renovation Tax Credit

The Ontario Healthy Homes Renovation Tax Credit was introduced in 2011 and provided senior taxpayers or their family members with a credit for renovations that improve the safety and accessibility of their home.

The Budget proposes to eliminate this credit as well, effective January 1, 2017.

Ontario Retirement Pension Plan

It was announced that this will continue as planned unless an acceptable enhanced Canada Pension Plan is implemented to the satisfaction of the provincial government.

Large employers with no pension plans and their employees will commence contributions to the ORPP in 2018. The plan will be fully phased in by 2021.

Business Income Tax Measures

Research and Development Tax Credits

Ontario has two forms of tax credits for Scientific Research and Experimental Development (SR&ED) activities: the Ontario Research and Development Tax Credit (ORDTC), a non-refundable credit of 4.5%; and the Ontario Innovation Tax Credit (OITC) a refundable tax credit of 10% available for small to medium sized entities.

The Budget proposes to reduce the ORDTC and OITC to 3.5% and 8% respectively for years that end on or after June 1, 2016. For taxation years straddling June 1, 2016, the rates would be pro-rated.

Apprenticeship Tax Credits

This continues to be an area under review, and further details on any changes to this credit will be announced later in 2016.

Paralleling Federal Income Tax Measures

To coincide with new or existing federal income tax measures, the Budget is proposing the following:

- The gross-up of non-eligible dividends will be the same as the federal gross-up (resulting in a reduction in the Ontario dividend tax credit from 4.5% to 4.2863%);
- The annual contribution limit for the Tax Free Savings Account will decline from \$10,000 to \$5,500; and
- Income split with certain related children will be taxed at Ontario's top marginal personal income tax rate ("kiddie tax").