

## Ontario Budget 2004 – Corporations Tax Act Measures

6006

## About this Notice

On May 18, 2004, a number of measures relating to the *Corporations Tax Act* were proposed in the 2004 Ontario Budget. The legislation must receive passage by the Legislature and Royal Assent to become law.

## Plan to Eliminate Capital Tax

The government proposes to implement a plan to gradually eliminate the capital tax by 2012:

- Starting January 1, 2005, the current \$5 million deduction from taxable paid-up capital would be increased by \$2.5 million each year until the deduction reaches \$15 million on January 1, 2008.
- Starting January 1, 2009, capital tax rates would be reduced each year until the capital tax is fully eliminated on January 1, 2012.

The following table sets out the government's proposed plan to eliminate the capital tax:

<b>Financial Institutions</b>					
<b>Taxable Capital Above \$400 Million</b>					
	<b>Deduction (\$Millions)</b>	<b>Regular Corporations (%)</b>	<b>First \$400 Million of Taxable Capital (%)</b>	<b>Non-Deposit Taking %</b>	<b>Deposit Taking (%)</b>
Current	5	0.3	0.6	0.72	0.9
01-Jan-05	7.5	0.3	0.6	0.72	0.9
01-Jan-06	10	0.3	0.6	0.72	0.9
01-Jan-07	12.5	0.3	0.6	0.72	0.9
01-Jan-08	15	0.3	0.6	0.72	0.9
01-Jan-09	15	0.225	0.45	0.54	0.675
01-Jan-10	15	0.15	0.3	0.36	0.45
01-Jan-11	15	0.075	0.15	0.18	0.225
01-Jan-12		Eliminated			

The proposed increases in the deduction and the cuts to the tax rates would be pro-rated for taxation years straddling the effective dates.

### Apprenticeship Training Tax Credit (ATTC)

The government proposes to introduce a new ATTC to encourage the hiring of apprentices in certain skilled trades.

Corporations would be eligible for a 25 per cent refundable tax credit on eligible expenditures incurred with respect to eligible apprentices. For businesses with total payroll costs not exceeding \$400,000, the tax credit rate would be increased to 30 per cent.

An employer would be eligible for a tax credit of up to \$5,000 per year per eligible apprentice to a maximum of \$15,000 over the first 36 months of the apprenticeship. The maximum annual tax credit of \$5,000 would be pro-rated for the number of days the apprentice is employed with that employer during the year.

#### **Eligible Apprentices**

Eligible apprentices would be in their first 36 months of an apprenticeship training program in a qualifying skilled trade on or after May 19, 2004 and have commenced employment before January 1, 2008.

#### **Eligible Expenditures**

Eligible expenditures would be salaries and wages paid after May 18, 2004 and before January 1, 2011 to an eligible apprentice.

#### **Qualifying Skilled Trades**

Qualifying skilled trades would include designated construction, industrial and motive power trades, as well as the service trades eligible under the present apprenticeship component of the Co-operative Education Tax Credit. (See Appendix A for a list of qualifying skilled trades.)

### Co-operative Education Tax Credit (CETC)

The following changes are proposed to the CETC:

- The CETC would continue to be available for qualifying co-op placements.
- Transitional rules are proposed for apprenticeships in their first 36 months that straddle May 18, 2004. Salaries and wages paid before May 19, 2004 would qualify for the CETC, and amounts paid after May 18, 2004 would qualify for the proposed ATTC.
- For apprenticeships not in their first 36 months and for work placements in approved fields of study other than co-operative education programs, no deduction may be claimed for salaries and wages paid after December 31, 2004. Since a minimum initial employment of 10 weeks is required for the CETC, employment commencing after October 25, 2004 would not qualify. These fields of study are listed in Appendix 2 of Tax Legislation Bulletin 96-2R2.

### Ontario Film and Television Tax Credit (OFTTC)

This Budget proposes to enhance the OFTTC. Effective for productions commencing principal photography after March 27, 2003, qualifying labour expenditures would not be reduced by equity investments from Canadian government film agencies.

### Ontario Film and Television Tax Credit (continued)

The OFTTC would also be amended to parallel the following enhancements to the federal Canadian Film or Video Production Tax Credit announced on November 14, 2003, including their effective dates:

- the extension to the commencement time for a production, which would allow qualifying labour expenditures to be incurred as early as two years before principal photography begins; and
- the provision allowing a person, other than the production company, to hold an interest in a film or television production, unless the production or one of the investors is associated with a tax shelter.

### Educational Technology Tax Incentive

Donations, sales or licences after December 31, 2004 would no longer qualify for this incentive. For licences granted before January 1, 2005, no amount would be deductible with respect to the licence after December 31, 2004.

### Other Incentives

The Workplace Accessibility Tax Incentive, Workplace Child Care Tax Incentive and Graduate Transition Tax Credit would expire for eligible expenditures made after December 31, 2004.

An expenditure is currently eligible for the Graduate Transitions Tax Credit only if the employment is for a minimum of six consecutive months. Therefore, employment commencing after July 5, 2004 would not qualify for the tax credit.

### Definition of Current Accounts Payable

Amendments are proposed to the definition of “current accounts payable” for capital tax purposes. These amendments respond to the court decision in QEW 427 Dodge Chrysler (1991) Inc., which held that current accounts payable include amounts owed to creditors and not just suppliers.

- Effective for taxation years ending after May 18, 2004, the definition of current accounts payable would be amended to confirm that it applies only to amounts payable to a supplier for purchases of goods and services.
- The proposed amendments would also clarify that liabilities incurred in connection with the purchase or trading of shares, bonds or other securities are not considered current accounts payable, effective for taxation years ending after May 19, 1993.

### Tax Incentives for Electricity Supply

The government intends to cancel the following tax incentives for electricity supply and conservation that have not been fully implemented:

- Legislation will be introduced to repeal the 10-year corporate income tax holiday and the 10-year property tax holiday effective November 26, 2002.

### Tax Incentives for Electricity Supply (continued)

- The government will not proceed with implementing the corporate income tax deduction for self-generation announced in the 2003 Ontario Budget and the immediate 100 per cent corporate income tax write-off for electrical energy-efficient equipment announced in November 2002.

### Federal Concordance Measures

Subject to any necessary modifications, Ontario proposes to parallel the following income tax measures announced in the federal budget of March 23, 2004 as they apply to corporations and their effective dates:

- the extension of the carry-forward period for business losses from seven to 10 years;
- the limits on the deductibility of fines and penalties, patronage dividends and unused charitable donations; and
- the amendments to the general anti-avoidance rule and the affiliated persons rules; and
- the capital cost allowance changes.

Also, it is proposed that the relaxation of the associated corporations rule for purposes of the \$2 million expenditure limit under the refundable portion of the federal investment tax credit for scientific research and experimental development would apply to the Ontario Innovation Tax Credit.

### Resource Allowance

Effective for taxation years ending after December 31, 2002, the federal government has implemented legislation that replaces the 25 per cent resource allowance with a deduction for Crown royalties and mining taxes paid.

Ontario proposes not to parallel the federal measure. Instead, Ontario would maintain the resource allowance and the non-deductibility of Crown royalties and mining taxes retroactive to the commencement of the federal change.

### Unincorporated Businesses

For the effect of changes to tax credits and incentives on unincorporated businesses, see Income Tax Related Branch Information Notice 1-04.

### For More Information

Please contact the Ministry Information Centre between 8:15 AM and 5:00 PM toll free from anywhere in Canada:

- English language enquiries      1-800-263-7965;
- French language enquiries      1-800-668-5821; and
- TTY (Teletypewriter)              1-800-263-7776; or
- Visit our website at **[www.trd.fin.gov.on.ca](http://www.trd.fin.gov.on.ca)**

## Appendix A

### Apprenticeship Training Tax Credit (ATTC)

Skilled trades qualifying for the ATTC would include:

#### Construction Trades

- Plumber
- Sheet metal worker
- Electrician
- Refrigeration and air conditioning mechanic
- Brick and stone mason
- General carpenter
- Ironworker
- Hoisting engineer
- Power lineworkers

#### Industrial Trades

- General machinist
- Tool and die maker
- Machine tool design
- Industrial electrician
- Industrial mechanic (millwright)
- Precision metal fabricator
- Cabinet maker
- Mould maker

#### Motive Power Trades

- Automotive service technician
- Fuel and electrical systems technician
- Auto body and collision damage repairman
- Truck and coach technician
- Motive power machinist
- Heavy duty equipment technician
- Marine engine mechanic

#### Services Trades\*

- Electronic service technician
- Micro-electronics manufacturer
- Network cabling specialist
- Information technology support analyst

\* These are the only service trades eligible under the apprenticeship component of the CETC and, therefore, are the only service trades that would qualify for the ATTC.