

Ontario Budget 2005 – *Corporations Tax Act* Measures

6008

About this
Notice

On May 11, 2005, a number of measures relating to the *Corporations Tax Act* were proposed in the 2005 Ontario Budget. The legislation must be passed by the Legislature and receive Royal Assent to become law.

Ontario Film
and Television
Tax Credit
(OFTTC)

As announced on December 21, 2004, the government proposes that the OFTTC rate be increased from 20 to 30 per cent for labour expenditures incurred after December 31, 2004 and before January 1, 2010. In addition, the 10 per cent regional bonus would continue to be available for filming outside the Greater Toronto Area. First-time producers would be eligible for an enhanced rate of 40 per cent on the first \$240,000 of qualifying labour expenditures incurred after December 31, 2004 and before January 1, 2010.

Legislative amendments will be introduced to create regulatory authority to prescribe OFTTC rates.

Ontario
Production
Services Tax
Credit (OPSTC)

As announced on December 21, 2004, the government proposes that the OPSTC rate be increased from 11 to 18 per cent for labour expenditures incurred after December 31, 2004 and before April 1, 2006. The three per cent regional bonus for filming outside the Greater Toronto Area would be eliminated for labour expenditures incurred after December 31, 2004.

Legislative amendments will be introduced to create regulatory authority to prescribe OPSTC rates.

Ontario
Computer
Animation and
Special Effects
Tax Credit
(OCASE)

The government proposes to enhance the OCASE tax credit. At present, the OCASE tax credit is based on the lesser of Ontario labour expenditures and 48 per cent of the cost of the production net of certain government assistance. Effective for eligible expenditures after May 11, 2005, the OCASE tax credit would be based only on Ontario labour expenditures, net of certain government assistance reasonably related to those expenditures.

Ontario
Interactive
Digital Media
Tax Credit
(OIDMTC)

This Budget proposes to make a change to the OIDMTC. Effective for eligible products completed after May 11, 2005, the requirement that eligible corporations demonstrate a minimum 90 percent copyright ownership in the eligible product would be relaxed, provided that the product is not developed under a fee-for-service arrangement.

Ontario Sound
Recording Tax
Credit (OSRTC)

This Budget proposes that the OSRTC be enhanced by the following measures for taxation years ending after May 11, 2005:

- the minimum period required by the corporation to carry on a sound recording business would be reduced from 24 months to 12 months
- for master tapes completed after May 11, 2005
 - the minimum total playing time would be reduced from 40 minutes to 15 minutes
 - the requirement that a sound recording company market its copies of eligible sound recordings through an established national distributor be replaced with a requirement that a sound recording company must have a distribution plan approved by the Minister of Culture.

Ontario Book
Publishing Tax
Credit (OBPTC)

The Budget proposes to enhance the OBPTC for children's books. Currently, an author is eligible for the first three children's books published. The proposed enhancement would allow a children's book author to be an eligible author for the first three works published in each category of children's writing:

- fiction
- non-fiction
- poetry
- biography

This change would be effective for literary works published after May 11, 2005.

Capital Cost
Allowance
(CCA)

Ontario proposes to parallel recently announced federal regulatory changes to align the CCA rates with the useful life of assets and to encourage investment in assets used to generate efficient and renewable energy, subject to federal implementation.

Assets acquired before January 1, 2008 that are used to generate electricity from clean, alternative or renewable sources will continue to be eligible for Ontario's 100 percent CCA rate.

Resource Allowance

It is proposed that the Ontario provisions be amended to clarify that income computed for Ontario purposes must be used in determining Ontario resource profits. This amendment, which would be effective for taxation years beginning after May 6, 1997, would prevent corporations from obtaining a double benefit as a result of claiming both an Ontario incentive deduction and additional resource allowance on that incentive.

Tax Avoidance

The Ontario government is reviewing arrangements that are designed to minimize corporate income taxes paid to Ontario. These types of arrangements can also reduce income taxes paid in other provinces. The Ontario government will be discussing this issue with the other provinces and the federal government, with the objective of developing common rules to address aggressive inter-provincial tax planning arrangements.

Treatment of Corporations Incorporated Outside Canada

A corporation's liability for Ontario tax is determined in part on whether the corporation is incorporated inside or outside Canada. The federal government and the other provinces apply a residency test instead of basing liability for tax on the jurisdiction of incorporation.

To stop the avoidance of provincial tax that can result from this difference, it is proposed that Ontario corporate tax liability now be determined with reference to whether the corporation is resident (rather than incorporated) inside or outside Canada. This change to the Ontario corporate tax rules would be consistent with the federal corporate income tax rules and the rules in other provinces.

This measure would be effective for taxation years ending after May 11, 2005.

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
- TTY (Teletypewriter) 1-800-263-7776

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