

Ministry of Finance

March 2006

Highlights from the 2006 Ontario Budget - *Corporations Tax Act*

6013

About this Notice

On March 23, 2006, a number of measures relating to the *Corporations Tax Act* were proposed in the 2006 Ontario Budget. The proposed amendments must be passed by the Legislature and receive Royal Assent to become law.

Accelerating Ontario's Capital Tax Rate Cut

The Ontario government proposes to cut the current capital tax rates by five per cent, effective January 1, 2007 – two years earlier than the first currently scheduled rate cut.

The following table sets out the government's proposed changes to the capital tax elimination plan originally outlined in the 2004 Ontario Budget.

Ontario's Capital Tax Elimination Plan

	Deduction (\$M)	Rates (%)			
		Regular Corporations	Financial Institutions		
			First \$400M of Taxable Capital	Non-Deposit Taking	Deposit Taking
Jan. 1, 2004	5	0.3	0.6	0.72	0.9
Jan. 1, 2005	7.5	0.3	0.6	0.72	0.9
Jan. 1, 2006	10.0	0.3	0.6	0.72	0.9
Jan. 1, 2007*	12.5	0.285	0.57	0.684	0.855
Jan. 1, 2008	15	0.285	0.57	0.684	0.855
Jan. 1, 2009	15	0.225	0.45	0.54	0.675
Jan. 1, 2010	15	0.15	0.3	0.36	0.45
Jan. 1, 2011	15	0.075	0.15	0.18	0.225
Jan. 1, 2012		Eliminated			

Shading denotes proposed capital tax rate cut.

*Proposed reduction would be pro-rated for taxation years straddling the effective date.

Ontario Production Services Tax Credit (OPSTC)

The OPSTC is a refundable tax credit for Ontario labour expenditures incurred by foreign-based and domestic film and television productions that are not claimed for purposes of the Ontario Film and Television Tax Credit.

As announced on February 9, 2006, the Ontario government proposes to extend the 18 per cent tax credit rate for the OPSTC until March 31, 2007.

Ontario Interactive Digital Media Tax Credit (OIDMTC)

The Budget proposes to raise the tax credit rate from 20 per cent to 30 per cent for corporations qualifying under the existing OIDMTC provisions.

The Budget also proposes to extend eligibility for the OIDMTC at a rate of 20 per cent to multimedia developers that exceed the current size test (annual gross revenues up to \$20 million and total assets up to \$10 million) and to fee-for-service work done in Ontario. For fee-for-service work, the OIDMTC would be based on the Ontario salaries and wages of a corporation that develops all or substantially all of an eligible product under contract with an arm's-length party. The extension to fee-for-service work would enable, for example, a video-game developer creating a product in Ontario under contract with a publishing company to be eligible for the OIDMTC.

These measures would be effective for expenditures incurred after March 23, 2006 and before January 1, 2010. Prior to 2010, the Ontario government will consult with stakeholders on the effectiveness of the OIDMTC and these proposed enhancements.

Federal Concordance Measures

Ontario proposes to parallel, subject to federal implementation, the income tax measures noted below as announced by the federal government in either November 2005 or in the 2005 Federal Budget, as they apply to corporations and their effective dates. They are as follows:

- extension of the carry-forward period for non-capital losses from 10 to 20 years
- capital cost allowance provisions relating to co-generation systems that use black liquor
- tax deferral for a patronage dividend paid by an agricultural cooperative corporation that is received in the form of eligible shares, where the income inclusion would be deferred from the year the share is received to the year the share is disposed of, and
- limit to the expenses that a taxpayer can claim in respect of certain transactions, such as the issuance of shares, where the amount of the expenditure on which a tax credit or deduction may be claimed is limited to the cash outlay.

Corporate Tax Collection Agreement

In May 2004, Ontario and the federal government signed an agreement that commits both governments to explore opportunities for collaboration in delivering public services. In November 2004, this collaboration was extended to include federal administration of Ontario's corporate taxes. In May 2005, the federal government committed to provide funding for this initiative.

Ontario is working with the federal government to conclude, as soon as possible, a Memorandum of Agreement (MOA) on the administration of Ontario's corporate taxes by the federal government.

The Budget proposes two measures that would enable steps to be taken toward a single administration of corporate taxes after the MOA is signed. One measure would authorize Ontario to enter into a corporate tax collection agreement with the federal government. The other measure would allow taxpayers to benefit from early compliance savings by providing for the integration of federal and Ontario audits for tax years ending before the commencement of full federal administration.

For More Information

Please contact the Ministry Information Centre between 8:15 a.m. and 5 p.m.

- English: 1-800-263-7965 (Canada & U.S.)
- French: 1-800-668-5821 (Canada & U.S.)
- TTY (Teletypewriter): 1-800-263-7776

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