

**Proposed Changes to the *Corporations Tax Act*
and the *Taxation Act 2007*****2007 Ontario Economic Outlook and Fiscal Review****6025****GENERAL**

On December 13, 2007, a number of measures relating to the *Corporations Tax Act* and the *Taxation Act 2007* were announced in the 2007 Ontario Economic Outlook and Fiscal Review. The proposed amendments must be passed by the Legislature and receive Royal Assent to become law. This notice provides general information and is not a substitute for the legislation.

NEW MEASURES TO FURTHER REDUCE AND ELIMINATE CAPITAL TAX

The government proposes to eliminate Capital Tax effective January 1, 2008 for Ontario companies primarily engaged in manufacturing or resource activities. The government also proposes to provide a 21 per cent cut for all businesses effective January 1, 2007 by accelerating the Capital Tax rate cuts currently scheduled for January 1, 2009.

Eliminating capital tax for manufacturing and resource activities

The proposed January 1, 2008 elimination of Capital Tax for manufacturing and resource activities would apply to corporations whose salaries and wages relating to manufacturing or processing, mining, logging, farming or fishing activities in Ontario represent 50 per cent or more of their total salaries and wages in Ontario. For corporations whose salaries and wages in Ontario for these activities comprise less than 50 per cent, but more than 20 per cent of their total salaries and wages in Ontario, Capital Tax would be reduced proportionately on a straight-line basis. For example, a corporation whose Ontario salaries and wages for these activities comprise 35 per cent of total Ontario salaries and wages would have one-half of its Capital Tax eliminated.

Capital tax rate cut of 21 per cent for all corporations

The government proposes to accelerate to January 1, 2007 the Capital Tax rate cuts currently scheduled for January 1, 2009, two years ahead of schedule.

As previously legislated, the Capital Tax deduction will rise from \$12.5 million to \$15 million on January 1, 2008. Capital Tax will be fully eliminated on July 1, 2010.

The following table sets out the Capital Tax elimination schedule with the proposed new measures.

Ontario's Accelerated Capital Tax Elimination Plan with Proposed New Initiatives						
	Deduction (\$ M)	Rates (%)				
		Non-Financial Institutions		Financial Institutions		
		M&P and Resources ¹	Other Corporations	1st \$400 Million of Taxable Capital	Taxable Capital Over \$400 Million	
Non-Deposit Taking	Deposit Taking					
2004	5	0.3	0.3	0.6	0.72	0.9
Jan. 1, 2007	12.5	0.285	0.285	0.57	0.684	0.855
Jan. 1, 2007	12.5	0.225	0.225	0.45	0.54	0.675
Jan. 1, 2008	15	Eliminated	0.225	0.45	0.54	0.675
Jan. 1, 2009	15		0.225	0.45	0.54	0.675
Jan. 1, 2010	15		0.15	0.3	0.36	0.45
July 1, 2010	Legislated Accelerated Elimination Date					

21%
rate cut

Shading denotes proposed Capital Tax initiatives.

Measures would be pro-rated for taxation years straddling the effective date.

¹ Primarily engaged in manufacturing or processing, mining, logging, farming or fishing activities in Ontario.

EXPANDING ELIGIBILITY FOR THE SMALL BUSINESS CORPORATE INCOME TAX RATE

Currently, the small business deduction provides a lower Corporate Income Tax (CIT) rate of 5.5 per cent to Canadian-controlled private corporations (CCPCs) on the first \$400,000 of active business income. The benefit of the small business deduction is gradually phased out on income earned by a CCPC between \$400,000 and \$1,128,519.

The government proposes to further enhance support for small businesses by increasing the small business deduction threshold to \$500,000 from \$400,000, effective January 1, 2007. This would immediately extend the preferential small business CIT rate to the first \$500,000 of business income. In addition, the small business deduction would be phased out once income reaches \$1,500,000, rather than \$1,128,519. The increase in the threshold would be pro-rated for taxation years straddling the effective date.

ENHANCING TAX SUPPORT FOR ONTARIO'S FILM AND TELEVISION INDUSTRY

The government proposes to increase the Ontario Film and Television Tax Credit (OFTTC) rate from 30 to 35 per cent for labour expenditures incurred after December 31, 2007 and before January 1, 2010. The 10 per cent regional bonus would continue to be available for filming outside the Greater Toronto Area and first-time producers would remain eligible for an enhanced rate of 40 per cent on the first \$240,000 of labour expenditures.

The government also proposes to increase the Ontario Production Services Tax Credit (OPSTC) rate from 18 to 25 per cent for labour expenditures incurred after December 31, 2007 and before January 1, 2010.

The OFTTC is available to Ontario-based, Canadian-controlled corporations for eligible film and television productions. The OPSTC is available to Ontario-based corporations for foreign and domestic productions not claimed under the OFTTC.

REFUNDS/OVERPAYMENTS

Several of the proposed tax cuts for corporations apply retroactively to the 2007 taxation year. Procedures will be implemented following enactment of the legislation to recalculate the 2007 tax owing and determine the refund. To ensure corporations receive the benefit of this refund at the earliest date possible, the refund could be applied retroactively to the corporation's 2008 instalment account. Any excess would be refundable. Further details will be made available shortly on how this process will work.

As well, a corporation is free to adjust its 2008 tax instalments based on the proposed tax cuts. If the legislation is passed, the corporation's required instalment payments for the year will reflect the tax cuts. If the legislation is not passed, administrative steps will be taken to ensure that corporations are not penalized by arrears interest charges.

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
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