

## Proposed Changes to the *Corporations Tax Act* and the *Taxation Act 2007* Reassessments, Interest, Overpayments and Instalments

6026

### Background

Information Notice 6025, dated December 2007, provides details of measures announced in the 2007 Ontario Economic Outlook and Fiscal Review. This notice provides additional information for corporations impacted by these measures, some of which are retroactive to January 1, 2007. This notice is not a substitute for the legislation, which must receive Royal Assent for the measures to become law.

### Proposed Income Tax Changes

- **Effective January 1, 2007**, increase the small business deduction threshold to \$500,000 and phase out the small business deduction once income reaches \$1,500,000.
- 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.
- 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.

### Proposed Capital Tax Changes

- **Effective January 1, 2007**, apply a 21 per cent capital tax rate cut for all corporations by accelerating the capital tax rate cuts originally scheduled for January 1, 2009. As previously legislated, the Capital Tax deduction will rise to \$15 million on January 1, 2008 and the Capital Tax will be fully eliminated on July 1, 2010.
- Effective January 1, 2008, eliminate Capital Tax for Ontario companies primarily engaged in manufacturing or resource activities. This measure will 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 paid to employees of the Ontario permanent establishment. For corporations whose salaries and wages paid to employees of the Ontario permanent establishment for these activities comprise less than 50 per cent, but more than 20 per cent of their total salaries and wages paid to employees of the Ontario permanent establishment, Capital Tax will be reduced proportionately on a straight-line basis.
- By the fall of 2008, a new schedule will be available on the Ministry's website which Ontario corporations may use to determine and claim the reduction in capital tax.

## Reassessments and Interest

The Ministry recognizes that some corporations will require the reassessment of previously assessed 2007 and/or 2008 taxation years impacted by these measures. In those circumstances, corporations that expect to benefit from these measures do **not** need to file an amended Corporations Tax Return (CT23) or Notice of Objection. The Ministry will automatically reassess the taxation year(s) and determine the amount of any overpayments resulting from the application of these measures.

The automatic reassessment will generally result in a reduced overall tax liability for corporations affected by the proposed measures. To the extent that the reduced liability results in an overpayment in the corporation's account for the 2007 and/or 2008 taxation years, interest will be calculated on the overpayment up to the date of the reassessment. Assuming the proposed measures receive Royal Assent, the Ministry anticipates that the necessary system changes will be implemented and the necessary reassessments will be completed by the fall of 2008.

Until the necessary system changes are implemented, the Ministry will continue to issue assessments for the 2007 and 2008 taxation years utilizing the existing legislation and rates. These assessments will also be reassessed once the system changes are implemented. All assessments processed after the system changes have been implemented will automatically reflect the new rates, identify the new tax assessed and determine the overpayment, if applicable (including interest up to the assessment date).

## Overpayments and Refunds

A 2007 overpayment resulting from the proposed measures will be applied retroactively to the corporation's earliest 2008 instalment account, provided there is no other outstanding tax liability under any other statute administered by the Ministry. Any interest charge for deficient instalments that exceeds interest credited on the 2007 overpayment will be waived. Deficient instalments that exceed the amount of the 2007 overpayment will continue to be charged interest at our regular rates for deficient instalments.

Corporations that wish to have the 2007 overpayment refunded rather than applied to its 2008 instalment account should contact the Accounts section of the Ministry's Client Accounts and Services Branch at 1-800-262-0784.

A 2008 overpayment resulting from the adjustment may only be applied to an outstanding tax liability under any statute administered by the Ministry or, alternatively, refunded. The overpayment cannot be applied to an instalment account arising after 2008.

Corporations may also choose to adjust their 2008 tax instalments based on the proposed tax cuts and remit less than is otherwise required based on the 2007 assessment. The planned system changes will reflect the reduced instalment payment obligations. If the legislation is not passed, administrative steps will be taken to ensure corporations are not penalized by arrears interest charges on the instalment deficiency resulting from the adjustment for the proposed changes.

## General

The development of the process for reassessing a corporation's 2007 and/or 2008 taxation years pertaining to the proposed measures is currently underway and is expected to be completed by the fall of 2008. No action by corporations is required to initiate this process. Provided the proposed measures receive Royal Assent, corporations will receive Notices of Reassessment in the fall reflecting the legislative changes and any resulting overpayment and related interest.

Corporate taxpayers are reminded to start making blended instalment payments to the Canada Revenue Agency (CRA), and to file a single T2 Corporate Tax return with the CRA, for taxation years ending after December 31, 2008.

## For More Information

- Information Bulletin 4010R1 - **Interest on Overpayments, Underpayments and Instalments of Tax.**
- Information Bulletin 4007R1 - **Tax Instalments and Payments.**
- Information Notice 6025 - **Proposed Changes to the *Corporations Tax Act* and the *Taxation Act 2007*.**

The guides to the CT23 Corporations Tax and Annual Return and the CT8 (for insurers) will be updated and posted on the Ministry's website, in order to provide additional information pertaining to the 2007 Fall Economic Statement. An Information Notice detailing all revised schedules will also be posted to the website.

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

Outside of North America    905 433-6000

TTY (Teletypewriter)    1 800 263-7776

Website at [www.rev.gov.on.ca](http://www.rev.gov.on.ca)