

Highlights from the 2008 Ontario Budget

Corporations Tax Act

Taxation Act, 2007

6027**About this Notice**

On March 25, 2008, a number of proposed measures relating to the *Corporations Tax Act* and the *Taxation Act, 2007* were announced in the 2008 Ontario Budget. The proposals 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.

Capital Tax Elimination for Manufacturing and Resource Activities

The 2007 Economic Outlook and Fiscal Review proposed to eliminate the Capital Tax effective January 1, 2008, for Ontario companies primarily engaged in manufacturing and resource activities.

In this Budget, the government proposes to retroactively eliminate the Capital Tax one year earlier, effective January 1, 2007, for Ontario companies primarily engaged in manufacturing and resource activities.

The government would provide this tax relief either by issuing a refund cheque or offsetting other corporate taxes owing. Further details will be made available shortly on how this process will work.

The proposed elimination of the Capital Tax for manufacturing and resource activities would apply to corporations whose salaries and wages relating to manufacturing and processing (M&P), 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, the Capital Tax would be reduced proportionately on a straight-line basis.

The proposed elimination for 2007 would apply to a qualifying corporation if it or a successor corporation has employees reporting to a permanent establishment in Ontario on March 25, 2008.

The following table sets out the Capital Tax elimination schedule with the proposed 2008 Budget and 2007 Economic Outlook and Fiscal Review initiatives.

Ontario's Accelerated Capital Tax Elimination Plan with Proposed 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	Eliminated	0.225	0.45	0.54	0.675
Jan. 1, 2008	15		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					

Shading denotes the Capital Tax initiatives proposed in the 2008 Budget and the 2007 Economic Outlook and Fiscal Review. Measures would be pro-rated for taxation years straddling the effective date.

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

Ontario Tax Exemption for Commercialization (OTEC)

To further support innovation in the Ontario economy, the government is proposing a 10-year tax exemption for new corporations that commercialize intellectual property developed by qualifying Canadian universities, colleges or research institutes.

A qualifying corporation established after March 24, 2008 and before March 25, 2012 would be exempt from Ontario Corporate Income Tax and Corporate Minimum Tax for its first 10 taxation years.

The exemption would generally apply to corporations that commercialize intellectual property in priority areas such as, but not limited to, bio-economy/clean technologies, advanced health technologies, and telecommunications, computer and digital technologies.

Eligible commercialization activities would include the development of prototypes and the marketing and manufacturing of products related to the intellectual property.

A qualifying corporation would be incorporated in Canada and derive all or substantially all of its income from eligible commercialization activities carried on in Ontario.

Ontario Innovation Tax Credit (OITC)

The OITC is a refundable tax credit available to small and medium-sized corporations that carry on scientific research and experimental development (SR&ED) in Ontario. The OITC provides a refundable 10 per cent tax credit on a corporation's qualifying SR&ED in Ontario.

The government proposes to extend the OITC to more small and medium-sized corporations and expand the tax credit to more qualifying SR&ED expenditures.

This extension of the OITC would be implemented by paralleling enhancements to the federal SR&ED tax credit proposed in the 2008 federal budget. Ontario proposes to increase the OITC expenditure limit from \$2 million to \$3 million of qualifying SR&ED expenditures. Ontario also proposes to extend the taxable income phase-out range of between \$400,000 and \$600,000 under the OITC to a new upper limit of \$700,000 of taxable income.

The required amendments to the *Corporations Tax Act* and *Taxation Act, 2007* would be introduced once the implementing federal legislation is enacted. The effective date of the amendments and phase-in rules would parallel the federal amendments.

The 2008 federal budget also proposed a new taxable capital phase-out range of \$10 million to \$50 million for the SR&ED tax credit. Ontario will maintain its current taxable capital phase-out range of \$25 million to \$50 million for the OITC.

**Ontario Interactive
Digital Media Tax
Credit (OIDMTC)**

The OIDMTC is a refundable tax credit available to Ontario corporations for the creation, marketing and distribution of interactive digital media products.

The Budget proposes to enhance the OIDMTC and extend the time period for qualifying expenditures.

The 2006 Budget enhanced the OIDMTC rate to 30 per cent for corporations with annual gross revenues of not more than \$20 million and total assets of not more than \$10 million that develop and market their own interactive digital media products. The 2006 Budget also extended eligibility for the OIDMTC at a rate of 20 per cent to multimedia developers that exceed the size test and allowed contracting corporations without the copyright to a digital media product the entitlement to claim the OIDMTC in cases where all or substantially all of the product is developed by them rather than by the copyright owner. These 2006 Budget enhancements are effective for expenditures incurred after March 23, 2006, and before January 1, 2010, including expenditures incurred pursuant to fee-for-service contracts entered into before March 24, 2006.

This Budget proposes to increase the 20 per cent tax credit rate for corporations exceeding the size test and for fee-for-service work to 25 per cent for qualifying expenditures incurred after March 25, 2008 and before January 1, 2012.

This Budget also proposes to extend the enhanced 30 per cent OIDMTC rate for small corporations to qualifying expenditures incurred after December 31, 2009 and before January 1, 2012.

In addition, this Budget proposes to extend the eligibility period for eligible labour expenses for qualifying digital media products for the OIDMTC from two to three years. Currently, eligible labour expenditures for the

OIDMTC must be incurred within the two-year period, ending when development of a product is completed. This measure would apply to products completed after March 25, 2008.

**Accelerated
Capital Cost
Allowance (CCA)
for M&P
Machinery and
Equipment**

The 2007 federal budget proposed a temporary tax incentive in the form of a 50 per cent straight-line CCA rate for M&P machinery and equipment acquired on or after March 19, 2007, and before 2009. Ontario announced that it would parallel this incentive.

The 2008 federal budget proposed to extend this incentive by allowing eligible assets acquired in 2009 to be depreciated on a 50 per cent straight-line basis and those acquired in 2010 and 2011 on a declining balance basis.

Subject to enactment of the applicable federal regulations, the Budget proposes to extend this tax incentive for manufacturers in line with the proposed federal rates and effective dates.

**Capital Cost
Allowance: Other
Measures**

Subject to enactment of the applicable federal regulations, Ontario proposes to parallel the following Corporate Income Tax initiatives and their effective dates relating to CCA announced in the 2008 federal budget:

- expanding eligibility for Class 43.2 to include a broader range of clean energy generation assets for biogas production equipment and additional applications of ground-source heat-pump and waste-to-energy systems
- increasing the CCA rate for carbon dioxide pipelines and setting the CCA rate for pumping and compression equipment for these pipelines to be consistent with the rates that apply to oil and gas pipelines and equipment
- increasing the CCA rate for railway locomotives to more accurately reflect the useful life of these assets.

**Relief from Tax
Instalments for
Small Businesses**

Quarterly tax instalments for Ontario tax are provided for small businesses under the *Corporations Tax Act* for taxation years ending before 2009. One of the requirements for federal administration of Ontario taxes for subsequent taxation years is to follow the federal corporate tax instalment rules, which do not provide quarterly instalments for corporations.

Recent federal legislation has changed corporate tax instalment rules to generally permit small Canadian-controlled corporations to remit their instalments on a quarterly basis rather than on a monthly basis. The new federal legislation also allows corporations with current- or past-year federal tax of up to a new limit of \$3,000 (increased from \$1,000) complete relief from the requirement to pay instalments.

For taxation years ending after 2008, Ontario proposes to amend the corporate tax instalment rules in the *Taxation Act, 2007* to parallel the new federal corporate tax instalment rules.

**Implementing the
Tax Measures
Announced in
Ontario's 2007
Economic Outlook
and Fiscal Review**

In the 2007 Economic Outlook and Fiscal Review, the government proposed several tax measures. The amendments to implement those measures are now included in the 2008 Budget Bill. Included in those measures are the following tax initiatives:

- eliminating the Capital Tax for manufacturing and resource activities
- cutting the Capital Tax rates for all businesses by 21 per cent retroactive to January 1, 2007
- extending the lower small business corporate income tax rate to more small businesses effective January 1, 2007
- increasing the film tax credit rates effective January 1, 2008.

For More Information

**Telephone
enquiries**

Please contact the Ministry Information Centre between 8:15 am and 5:00 pm toll free from anywhere in Canada.

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