

Ministry of Revenue

March 2009

### Highlights from the 2009 Ontario Budget Corporations Tax

**About this Notice** On March 26, 2009, a number of proposed measures relating to the *Taxation Act, 2007* were announced in the 2009 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.

#### Cutting Corporate Income Tax Rates

Ontario's current general Corporate Income Tax (CIT) rate is 14 per cent of taxable income and the rate for manufacturing and processing (M&P), mining, logging, farming and fishing is 12 per cent. The small business CIT rate currently is 5.5 per cent.

The government is proposing to cut CIT rates, beginning July 1, 2010, as follows:

- the general CIT rate would be cut from 14 per cent to 12 per cent and further reduced to 10 per cent over three years;
- the CIT rate on M&P and resource sectors would be cut from 12 per cent to 10 per cent;
- the small business CIT rate would be cut from 5.5 per cent to 4.5 per cent; and
- the small business deduction surtax of 4.25 per cent would be eliminated.

The following table sets out the proposed CIT rate cut plan:

#### Ontario's Proposed Corporate Income Tax Rate Cut Plan

Date	Rates (Per Cent)			
	General	M&P <sup>1</sup>	Small Business <sup>2</sup>	Small Business Deduction Surtax <sup>3</sup>
Current	14	12	5.5	4.25
July 1, 2010	12	10	4.5	0
July 1, 2011	11.5	10	4.5	0
July 1, 2012	11	10	4.5	0
July 1, 2013	10	10	4.5	0

<sup>1</sup> Income from manufacturing and processing, mining, logging, farming or fishing.

<sup>2</sup> Applies to Canadian-controlled private corporations (CCPCs) on the first \$500,000 of active business income.

<sup>3</sup> Applies to CCPCs on taxable income between \$500,000 and \$1.5 million.

*Note:* The proposed tax rate reductions would be pro-rated for taxation years straddling the effective dates.

**Eliminating the Small Business Deduction Surtax** The small business deduction provides a lower CIT rate of 5.5 per cent to Canadian-controlled private corporations (CCPCs) on the first \$500,000 of active business income. Currently, the benefit of the small business deduction is gradually phased out on taxable income between \$500,000 and \$1.5 million. The benefit of the small business deduction is phased out by a 4.25 per cent surtax that is applied in addition to the regular CIT rates.

As part of the government's plan to enhance the competitiveness of Ontario's corporate tax system, the government proposes to eliminate the small business deduction surtax effective July 1, 2010.

This would extend the benefit of the small business deduction to all CCPCs. If passed by the legislature, CCPCs would be taxed at the proposed new small business rate of 4.5 per cent, effective July 1, 2010, on the first \$500,000 of active business income, regardless of income level. The proposed elimination of the small business deduction surtax and the general CIT rate cut to 10 per cent, in 2013, would provide all CCPCs with an average CIT rate on active business income of below 10 per cent.

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

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**Reducing the Corporate Minimum Tax**

The Corporate Minimum Tax (CMT) is calculated as the amount by which four per cent of adjusted net income for accounting purposes exceeds CIT payable. The CMT generally acts as a prepayment of CIT by providing for a carry-forward credit equal to the amount of CMT paid. The credit can be carried forward up to 20 years and may be applied to reduce CIT in years where CIT exceeds CMT. A corporation or an associated group of corporations with total assets under \$5 million and annual gross revenues under \$10 million does not pay CMT.

As a result of the CIT reform proposals in this Budget, a corresponding reduction in the CMT rate is necessary to ensure that corporations subject to the CMT are able to fully benefit from the proposed CIT rate reductions. In addition, the government is proposing to exempt more small and medium-sized businesses from calculating and paying CMT.

It is proposed that effective for taxation years ending after June 30, 2010:

- the CMT rate be reduced to 2.7 per cent; and
- a corporation or an associated group with under \$50 million in total assets or under \$100 million in annual gross revenues would not pay CMT.

The 20-year CMT credit carry-forward mechanism would continue to apply.

The proposed rate reduction would be pro-rated for taxation years straddling the effective date.

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**Ontario Innovation Tax Credit**

The Ontario Innovation Tax Credit (OITC) is a 10 per cent refundable tax credit for small and medium-sized corporations performing eligible Scientific Research and Experimental Development (SR&ED) in Ontario.

The Budget proposes to extend the OITC to more small and medium-sized corporations by extending the taxable income phase-out range between \$400,000 and \$700,000 to a new phase-out range of between \$500,000 and \$800,000.

This measure would parallel the enhancement of the federal Investment Tax Credit for SR&ED proposed in the 2009 federal budget.

The required amendments 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.

**Ontario Film and Television Tax Credit**

The Ontario Film and Television Tax Credit (OFTTC) is a refundable tax credit available to qualifying corporations for labour expenditures related to certified domestic film and television productions in Ontario.

In the 2007 Ontario Economic Outlook and Fiscal Review, the government announced an increase to the OFTTC rate to 35 per cent from 30 per cent, effective January 1, 2008 to December 31, 2009.

As announced on February 20, 2009, the government proposes to make the enhanced 35 per cent OFTTC rate permanent.

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**Ontario Production Services Tax Credit**

The Ontario Production Services Tax Credit (OPSTC) is a refundable tax credit available to qualifying corporations for labour expenditures related to qualifying foreign film and television production services and non-certified domestic film and television productions in Ontario.

In the 2007 Ontario Economic Outlook and Fiscal Review, the government announced an increase to the OPSTC rate to 25 per cent from 18 per cent, effective January 1, 2008 to December 31, 2009.

As announced on February 20, 2009, the government proposes to make the enhanced 25 per cent OPSTC rate permanent.

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**Ontario Interactive Digital Media Tax Credit**

The Ontario Interactive Digital Media Tax Credit (OIDMTC) is a refundable tax credit available to qualifying corporations for expenditures related to the creation, marketing and distribution of eligible interactive digital media products. Currently, a 30 per cent refundable tax credit is available to small corporations that develop their own eligible products and a 25 per cent refundable tax credit is available to large corporations that develop their own eligible products or to corporations that develop eligible products under a fee-for-service arrangement.

This Budget proposes, effective for qualifying expenditures incurred after March 26, 2009, to enhance the OIDMTC rates to:

- 40 per cent for qualifying corporations, regardless of size, that develop and market their own eligible products; and
- 35 per cent credit for qualifying corporations that develop eligible products under a fee-for-service arrangement.

This Budget also proposes to expand the OIDMTC, effective for qualifying expenditures incurred after March 26, 2009, to allow corporations to claim 100 per cent of the amount paid to eligible arm's-length contractors that is attributable to the salaries and wages of the contractor's employees. Currently, qualifying corporations that develop and market their own products are able to claim 50 per cent of such labour expenditures while corporations developing eligible products under a fee-for-service arrangement are unable to claim these expenditures.

This Budget further proposes, effective for qualifying expenditures incurred after March 26, 2009, to extend the OIDMTC to digital media game developers that incur a minimum \$1 million of eligible labour expenditures over a 36-month period for fee-for-service work done in Ontario in respect of an eligible product. Corporations that meet the minimum expenditure test would not be required to be at arm's length with the purchaser corporation, or to develop all, or substantially all, of the eligible product.

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**Ontario  
Computer  
Animation and  
Special Effects  
Tax Credit**

The Ontario Computer Animation and Special Effects Tax Credit (OCASE) is a 20 per cent refundable tax credit available to qualifying corporations for eligible labour expenditures related to digital animation and special effects in qualifying film and television productions.

This Budget proposes, effective for qualifying expenditures incurred after March 26, 2009, enhancements to the OCASE tax credit that would:

- increase eligible labour expenditures to 100 per cent from 50 per cent of amounts paid to arm's-length unincorporated individuals and partnerships providing freelance services;
- expand eligible labour expenditures to include 100 per cent of amounts paid to arm's-length incorporated individuals providing freelance services while ensuring that incorporated individuals cannot claim the credit directly; and
- streamline administration by relaxing the requirement that an eligible animation or visual effect be created primarily with digital technologies.

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**Ontario Book  
Publishing Tax  
Credit**

The Ontario Book Publishing Tax Credit is a 30 per cent refundable tax credit available to Ontario book publishing corporations for qualifying expenditures related to publishing and promoting the first three books by a Canadian author in an eligible category of writing. Eligible categories of writing are adult or children's fiction, non-fiction, poetry or biography.

This Budget proposes to expand eligibility to qualifying expenditures incurred after March 26, 2009 for:

- any number of books by a Canadian author in an eligible category of writing; and
- direct expenses that reasonably relate to publishing an electronic version of an eligible book.

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**Co-operative  
Education Tax  
Credit**

The Co-operative Education Tax Credit (CETC) is a refundable tax credit available to businesses that employ postsecondary students enrolled in qualifying co-operative education programs at eligible educational institutions. Currently, the CETC is a 10 per cent refundable tax credit (15 per cent for small businesses) on salaries and wages paid, to a maximum credit of \$1,000 per work placement.

This Budget proposes enhancements to the CETC, effective for eligible expenditures incurred after March 26, 2009 that would:

- increase the 10 per cent CETC rate to 25 per cent and the enhanced 15 per cent rate for small businesses to 30 per cent; and
- increase the maximum tax credit available from \$1,000 to \$3,000 per work placement.

**Apprenticeship Training Tax Credit** The Apprenticeship Training Tax Credit (ATTC) is a refundable tax credit available to businesses on the salaries and wages paid to eligible apprentices in designated construction, industrial, motive power and service trades. Currently, the ATTC provides a 25 per cent refundable tax credit (30 per cent for small businesses) on the salaries and wages paid during the first 36 months of an apprenticeship program, to a maximum annual credit of \$5,000. The ATTC is available for apprentices that begin their apprenticeship program before January 1, 2012 and salaries and wages paid before January 1, 2015.

This Budget proposes enhancements to the ATTC, effective for expenditures incurred after March 26, 2009, that would:

- increase the 25 per cent ATTC rate to 35 per cent and the enhanced 30 per cent rate for small businesses to 45 per cent;
- increase the \$5,000 annual maximum tax credit to \$10,000;
- extend the ATTC to salaries and wages paid during the first 48 months of an apprenticeship program; and
- make the ATTC a permanent tax incentive.

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**Ontario Political Contributions** As announced on December 30, 2008, the government proposes to introduce legislation this spring to convert the tax deduction that was available for corporations making eligible Ontario political contributions under the *Corporations Tax Act* into a non-refundable tax credit based on the general CIT rate, under the *Taxation Act, 2007*. The proposed tax credit, effective for taxation years ending after December 31, 2008, would maintain a similar level of support as that provided under the former tax deduction.

Eligible Ontario political contributions would be contributions made under the *Election Finances Act* to Ontario parties and constituency associations or to candidates in an Ontario election. Unused contributions, including those from pre-2009 taxation years, would be available to be carried forward and claimed for up to 20 years. Similar to the deduction, the annual contributions limit would be indexed according to the manner and schedule set out in the *Election Finances Act*.

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**Capital Cost Allowance for Computers** Currently, computers are eligible for a 55 per cent Capital Cost Allowance (CCA) rate on a declining-balance basis.

Ontario will parallel the 2009 federal budget proposal to provide a temporary 100 per cent accelerated CCA rate for eligible computers and software acquired after January 27, 2009 and before February 2011, subject to federal implementation. As announced federally, the temporary accelerated CCA rate for computers will not be subject to the half-year rule and, accordingly, the full cost of eligible computers and software can be deducted in the first taxation year that the assets are available for use.

**Capital Cost Allowance for Manufacturing and Processing Machinery and Equipment** Ontario and the federal government currently provide a temporary tax incentive in the form of an accelerated CCA rate for manufacturing and processing machinery and equipment acquired after March 18, 2007 and before 2012. Eligible assets acquired before 2010 qualify for a 50 per cent straight-line accelerated CCA rate and those acquired in 2010 and 2011 are eligible for accelerated CCA rates on a declining-balance basis.

Ontario will parallel the 2009 federal budget proposal to extend the 50 per cent straight-line accelerated CCA rate for eligible assets acquired in 2010 and 2011, subject to federal implementation.

### For More Information

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