

## HIGHLIGHTS FROM THE ONTARIO BUDGET

Minister of Finance Peter Bethlenfalvy tabled the 2023/24 Ontario provincial budget on March 23, 2023.

Ontario continues to face economic challenges and elevated uncertainty. However, Ontario’s economy remains resilient and continues to grow despite ongoing economic uncertainty. Real gross domestic product exceeded the COVID-19 pre-pandemic level by 4.0% as of September 30, 2022. Ontario also created 338,300 jobs (+4.6%) in 2022, following a gain of 367,400 (+5.2%) net jobs in 2021, the two strongest years of job growth on record.

The government is projecting a deficit of \$2.2 billion for the 2022/23 fiscal year. Over the medium term, the government is projecting a deficit of \$1.3 billion in 2023/24 before planning for surpluses of \$0.2 billion in 2024/25 and \$4.4 billion in 2025/26.

On the income tax side, there were no proposed increases or decreases to personal or corporate income tax rates for 2023, with the exception of a commitment to mirror the federal government’s extension of the phase-out range for the federal small business corporate income tax rate. The budget did announce expanded eligibility for Guaranteed Annual Income System (GAINS) payments and a new Ontario-made manufacturing investment tax credit.

The following pages are a summary of proposals announced in the budget. Please note that these measures remain proposals until passed into law by the provincial government.

## PERSONAL TAX MATTERS

### Personal income tax rates and tax brackets

There were no changes to personal income tax rates announced in the budget. Tax brackets and other amounts have been indexed by 6.5% to recognize the impact of inflation, except for the \$150,000 and \$220,000 brackets, which are not indexed for inflation. The table below shows the Ontario tax rates and brackets for 2023.

TAXABLE INCOME RANGE	2023 TAX RATES
First \$49,231	5.05%
Over \$49,231 to \$98,463	9.15%
Over \$98,463 to \$150,000	11.16%
Over \$150,000 to \$220,000	12.16%
Over \$220,000	13.16%

The table below shows the 2023 combined federal and provincial highest marginal tax rates for various types of income.

INCOME TYPE	2023 COMBINED TAX RATES
Regular income	53.53%
Capital gains	26.76%
Eligible dividends	39.34%
Non-eligible dividends	47.74%

### Expanded eligibility for Guaranteed Annual Income System (GAINS) payments

The government is proposing to make changes to expand the eligibility for GAINS as of July 2024. The proposed amendments to the Ontario Guaranteed Annual Income Act would allow more seniors to be eligible for the program and keep more of their benefits. The government is proposing to lower the rate at which the benefit is reduced in relation to annual private income. At the same time, the government is proposing to adjust the benefit annually to inflation.

## CORPORATE TAX MATTERS

### Corporate income tax rates

There were no proposed changes to corporate income tax rates other than a commitment to mirror the federal government's extension of the phase-out range for the federal small business corporate income tax rate. The table below shows the Ontario tax rates and the small business limit for 2023.

CATEGORY	2023 TAX RATES
General rate	11.5%
Manufacturing and processing rate	10%
Investment income rate	11.5%
Small business rate	3.2%
Small business limit	\$500,000

The table below shows the 2023 combined federal and provincial corporate income tax rates for various types of income earned by a Canadian Controlled Private Corporation (CCPC).

INCOME TYPE	2023 COMBINED TAX RATES
Small business income	12.2%
Active income over \$500,000	26.5%
Manufacturing and processing income	25%
Investment income	50.2%

## **Ontario small business corporate income tax rate**

In the 2022 Ontario Economic Outlook and Fiscal Review, the government proposed to extend the phase-out range for Ontario's small business Corporate Income Tax (CIT) rate to between \$10 million and \$50 million of taxable capital employed in Canada. The current phase-out range applies between \$10 million and \$15 million. The government is now introducing legislative amendments to implement this change. The change would mirror the federal government's extension of the federal phase-out range for the federal small business CIT rate, which was recently legislated. This proposed measure would apply to taxation years that begin on or after April 7, 2022, for consistency with the federal effective date.

## **Ontario-made manufacturing investment tax credit**

The government is proposing a new Ontario-made manufacturing investment tax credit, a new 10% refundable corporate income tax credit for capital investments in buildings, machinery and equipment used in manufacturing or processing.

The credit would be available to Canadian-controlled private corporations that make qualifying investments and have a permanent establishment in Ontario. For the purposes of this credit, a permanent establishment means a fixed place of business including an office, a factory or a workshop. Qualifying investments would be expenditures for certain capital property included in Class 1 or Class 53 for capital cost allowance (CCA) purposes.

Qualifying investments in Class 1 would include expenditures for constructing, renovating or acquiring buildings used for manufacturing or processing in Ontario that become available for use on or after March 23, 2023. To qualify as a building used for manufacturing, 90% of the floor space of the building must be used at the end of the corporation's taxation year for manufacturing or processing in Ontario, and the building must be eligible for the additional 6% CCA permitted under federal tax rules.

Qualifying investments in Class 53 would include expenditures for machinery and equipment used in the manufacturing or processing of goods in Ontario. The machinery and equipment would have to be acquired and become available for use on or after March 23, 2023, and before 2026. After 2025, qualifying investments would include expenditures for machinery and equipment used in the manufacturing or processing of goods for sale or lease that are included in Class 43(a).

The credit would be available for qualifying investments up to a limit of \$20 million in a taxation year and would be prorated for a short taxation year. An associated group of corporations would be subject to the \$20 million limit. The government will undertake a review of the credit every three years to evaluate the credit for effectiveness, compliance burden and administrative costs.

## **OTHER INITIATIVES**

### **Ontario's film and television tax credits**

The government is extending film and television tax credit eligibility to professional film and television productions made available exclusively online. Draft regulatory amendments were posted on Ontario's Regulatory Registry on February 21, 2023, and will be available for public comment until April 11, 2023. The government will review all comments and finalize the regulatory amendments in the coming months.

The government is proposing a requirement that film and television productions supported by Ontario tax credits provide on-screen acknowledgement of this support in their end credits. Draft regulatory amendments to implement this change were

included as part of the draft amendments posted on the Ontario Regulatory Registry on February 21, 2023, for public consultation, as mentioned above.

The government is exploring opportunities to simplify the Ontario Computer Animation and Special Effects Tax Credit to reduce administrative complexity while continuing to ensure support remains targeted to professional productions with significant cultural or economic impact. The government is engaging with industry stakeholders to explore options.

The government is proceeding with a review of the Ontario Film and Television Tax Credit regional bonus to ensure it is providing effective and appropriate incentives and support for film and television production in all regions of Ontario.

### **Ontario's tobacco tax administration**

As outlined in the 2022 Budget, the government is moving ahead with a review and modernization of the Tobacco Tax Act to ease the administrative burden while also strengthening oversight. As an initial step, technical amendments will be introduced to remove redundant and outdated requirements in the legislation to provide greater clarity and reduce burden for registrants. Moving forward, the review will identify additional opportunities to further reduce administrative burden, align the legislation to the changing tobacco marketplace and best practices in other jurisdictions, and modernize compliance by enhancing digitization. The government will engage First Nations, industry and trade associations including those representing convenience stores, law enforcement and public health stakeholders to inform proposed legislative changes.

### **Harmonizing wine tax in response to World Trade Organization settlement**

The government of Ontario is proposing to set a single 12% basic tax rate on wine and wine coolers sold in off-site winery retail stores, including wine boutiques. The new rate would come into effect on July 1, 2023. The proposed amendment would replace the four separate basic tax rates that apply to wine sold in off-site winery retail stores with a single rate. The harmonized rate is expected to result in an overall tax reduction of about \$4 million per year. These proposed changes are in response to a World Trade Organization settlement reached between Canada and Australia.

### **Other legislative initiatives – amendment to the Financial Professionals Title Protection Act, 2019**

Additional proposed legislative amendments include an amendment to the Financial Professionals Title Protection Act, 2019 to give the Financial Services Regulatory Authority of Ontario the power to make rules governing the use of protected titles by credential holders when a credentialing body's approval has been revoked or an approved credentialing body ceases to operate.

## **WE CAN HELP**

Your Assante advisor can help you assess the impact of these proposals on your personal finances or business affairs and show you ways to take advantage of their benefits or ease their impact. The resources available to you and your advisor include CI Assante Private Client's Wealth Planning Group, a multi-disciplinary team of accountants, lawyers and financial planners.

For more information, we encourage you to speak to your advisor or visit us at [assante.com](https://www.assante.com)

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