

# The Owner Manager

Ontario Budget Issue

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On May 2, 2000 the honourable Ontario Minister of Finance, Ernie Eves, tabled what could possibly be his last budget. The budget included the implementation of a "Made for Ontario" personal income tax system, meaning that Ontario personal taxes will no longer be tied to the Federal income tax calculation. The budget included numerous tax incentives in both the personal and corporate sectors.

## Personal Tax

Ontario is adopting a tax on income system whereby it will calculate its tax based upon a taxable income calculation. This moves away from the current system of

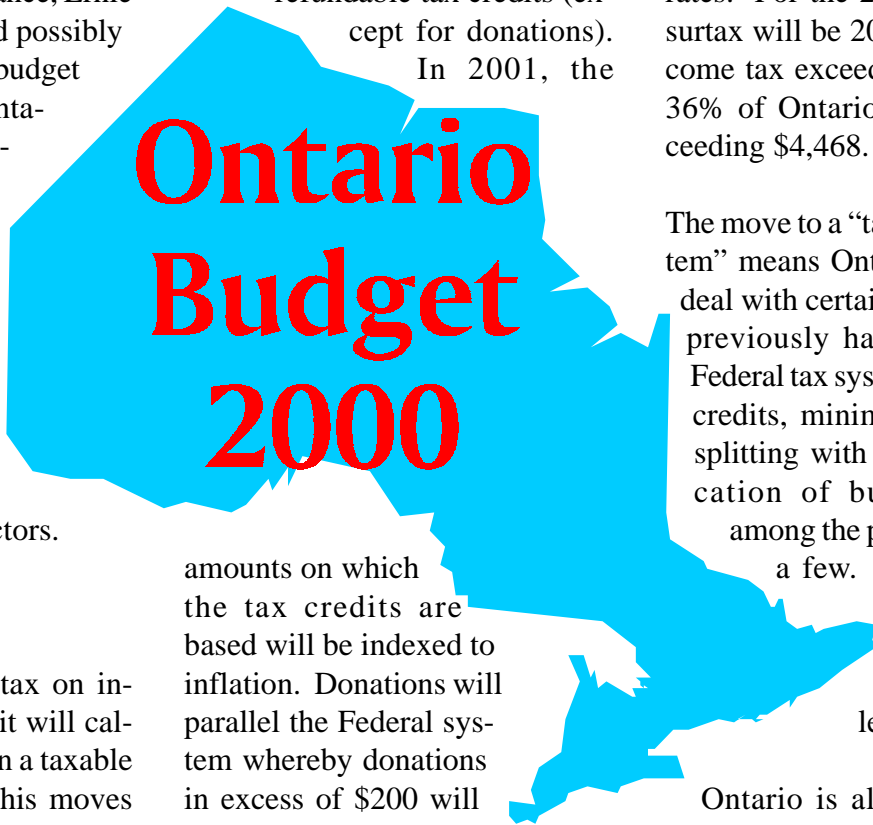
used to determine the Federal non-refundable tax credits (except for donations).

In 2001, the

the first and middle income tax rates. For the 2000 tax year, the surtax will be 20% of Ontario income tax exceeding \$3,561, plus 36% of Ontario income tax exceeding \$4,468.

The move to a "tax on income system" means Ontario will have to deal with certain items that were previously handled under the Federal tax system: dividend tax credits, minimum tax, income splitting with minors and allocation of business income among the provinces to name a few. As more details emerge, check future Owner Manager newsletters.

Ontario is also matching the Federal initiative of cutting the capital gain inclusion rate from 75% to 2/3. However, Ontario is planning on going further than the Federal Government by reducing the capital gains inclusion rate to 50% by 2004. From February 28, 2000 until year end the inclusion rate will be 2/3. For the 2001 year, the inclusion rate will be 62%. Corresponding adjustments will also be made for capital losses, allowable business investment losses, net capital losses carried forward from prior years and the \$500,000 lifetime capital gains exemption for sales of qualifying small business shares and qualified



amounts on which the tax credits are based will be indexed to inflation. Donations will parallel the Federal system whereby donations in excess of \$200 will have the top rate of

11.16% applied to calculate the donation tax credit.

The new Ontario tax system will be fully indexed to inflation,

starting in the 2001 taxation year. Full indexation will apply to all Ontario tax brackets, non-refundable tax credits and any surtaxes. This eliminates so called "bracket creep."

The tax thresholds at which Ontario surtaxes apply will be lowered, to parallel the reduction in

**Ontario tax brackets and rates for 2000**

		Ontario Tax Rate (before surtax)	
		Pre-budget	Post-budget
Taxable Income	Up to \$30,004	6.545%	6.370%
	\$30,004 to \$60,009	10.010%	9.620%
	Over \$60,009	11.165%	11.160%

calculating Ontario taxes as a percentage of Federal taxes. This change commences in the 2000 tax year. For the 2000 year, Ontario will follow the federal income tax non-refundable tax credit system.

Ontario non-refundable tax credits will work by applying the lowest Ontario tax rate to the amounts

farm property.

The budget provides assistance to “High Tech” industries to retain employees through stock options. Employees of eligible corporations will be allowed to deduct up to \$100,000 annually in respect of the aggregate of (1) the taxable portion of eligible stock option benefits and (2) taxable capital gains arising from the sale of shares acquired by exercising eligible stock options. Eligible corporations are Ontario corporations that incur Ontario scientific research expenditures and have in the preceding year eligible research expenditures of at least \$25 million or 10% of total annual revenues. Eligible employees cannot own 10% or more of any class of shares of the corporation and must spend at least 30% of their time in scientific research in the year the stock option is granted. In addition, the employee must be an Ontario resident when the option is granted and the capital gain incurred when the shares are sold.

So what are the top individual tax rates in Ontario under the new system? The following chart lists the new combined Federal and Ontario top rates.

	Rates for different types of income				
	1999	2000		2001	
		Pre-budget	Post-budget	Pre-budget	Post-budget
Ordinary income	48.75%	47.87%	47.86%	47.58%	To be announced
Canadian dividends	32.92%	32.32%	32.31%	32.13%	
Capital gains	36.57%	31.91%	31.91%	31.72%	
Top tax bracket	\$62,200	\$74,241		\$86,014	

Ontario presently ranks as the 2nd lowest personal tax rate of the 10 provinces.

Ontario is finally going to allow regulated professionals like lawyers and accountants to incorporate and enjoy the tax and non-tax advantages of incorporation. However, professional liability will not be limited in any way by practising as a professional corporation, nor will non-members of the profession be permitted to own shares of the professional corporation.

### Corporate Tax

The general corporate tax rate is being reduced from 15.5% to 14.5% effective May 2, 2000. On January 1, 2001 the rate will be further reduced to 14%. By 2005 when the rate reductions are fully implemented, the general corporate tax rate will be 8%.

For manufacturers, mining, logging, farming and fishing operations, the effective corporate tax rate will be reduced from 13.5% to 12.5%. On January 1, 2001 the rate will be further reduced to 12%. By 2005, the M&P rate will also equal 8%.

For Canadian controlled private corporations, the small business rate on active business profits is being reduced from 8% to 7% effective May 2, 2000. The tax rate will further drop to 6.5% January 1, 2001 with further 1/2% drops per year until January 1, 2005 when the rate will remain at 4%. The combined Federal and Ontario tax rate on small business profits now sits at 21.12%.

Ontario is also increasing the threshold for income subject to the small business tax rate. Effective January 1, 2001 the threshold is increased from \$200,000 to \$240,000. This will increase by \$40,000 per year until January 1, 2005 when the threshold will be \$400,000.

The small business deduction phase-out of the low business rate will also be increased from the present \$200,000 to \$500,000 range of taxable incomes to \$400,000 to \$1 million of taxable incomes. This phase out essentially removes the benefit of the small business tax rate for Ontario tax purposes once taxable income hits the top of the phase out range.

To parallel the reduction in capital gains inclusion rates for individuals, Ontario corporations will receive the same reductions of capital gains, capital losses, business investment losses, etc. as they are phased in for individuals.



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