2009 ONTARIO BUDGET

Confronting the Challenge

Building Our Economic Future

Ontario Budget 2009

AMO Conference – August 18, 2009

Comprehensive Tax Reform Package

- Moving to a single, value-added tax on July 1, 2010
  - Proposed combined rate of 13% – Ontario's portion would be 8% – current RST general rate – the federal portion would be 5%
- Providing $10.6B in tax relief to people over three years
- Providing $4.5B in business tax relief over three years

Excluding the federal transitional relief, Ontario would be reducing total tax revenue by $2.3B over four years

2009 Budget Support for Municipalities

- The 2009 Budget will support all Ontario communities through investments in public transit, infrastructure, social housing and provide support for Ontarians receiving social assistance
- The province is investing $32.5 billion in infrastructure over the next two years, including a $5 billion contribution from the federal government that will support more than 300,000 jobs and strengthen Ontario’s economy
  - Communities across Ontario will receive nearly $3.4 billion in joint federal-provincial-municipal funding for nearly 1,400 key infrastructure projects

Other Support for Municipalities

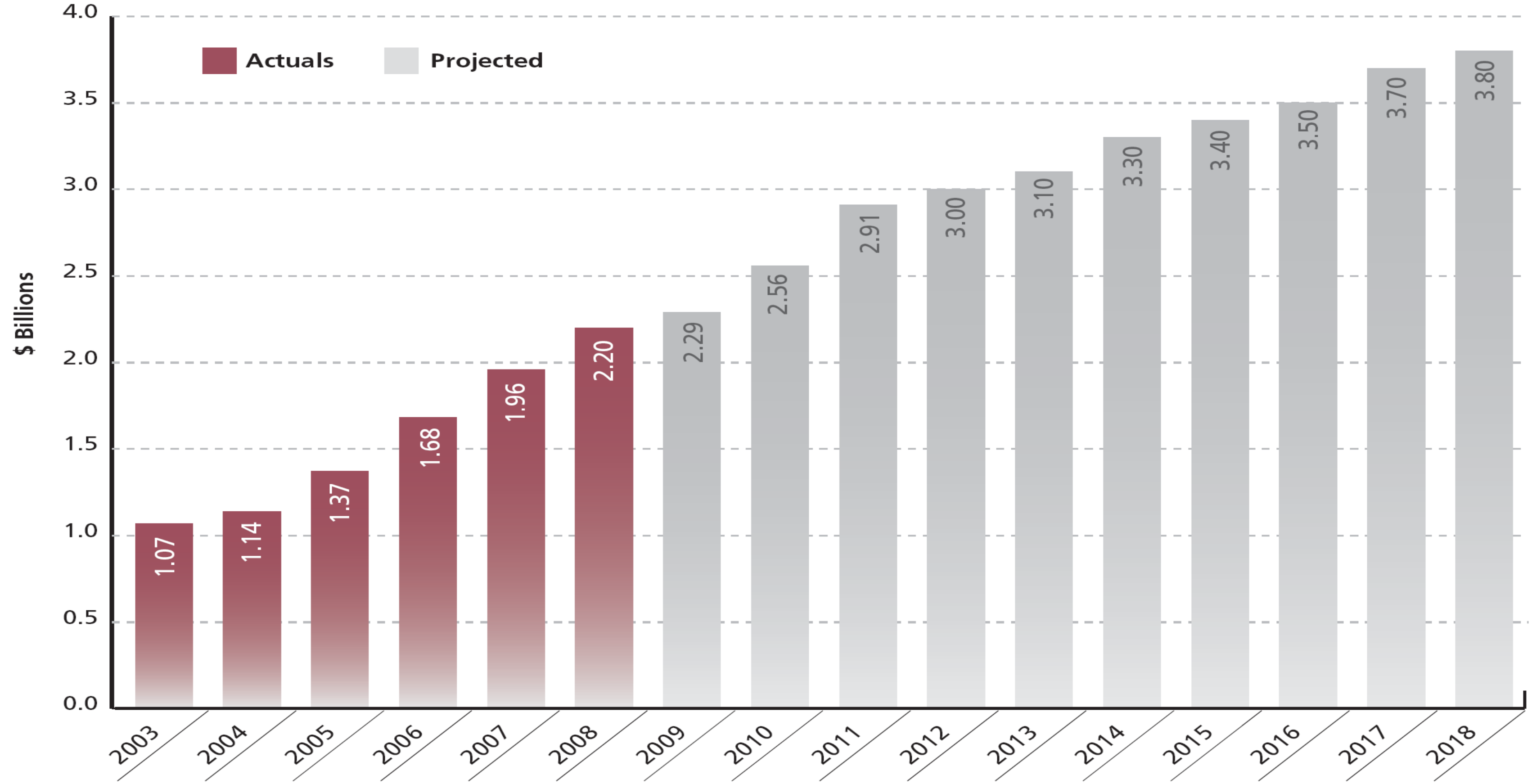
- The provincial upload of the Ontario Drug Benefits (ODB), Ontario Disability Support Program (ODSP), Ontario Works (OW) benefits, and up to $125 million annually in court security costs (at maturity) — a net benefit for municipalities of $1.5 billion a year by 2018

- The ongoing annual support to municipalities estimated at $2.3 billion in 2009 — including $949 million through the combined benefit of the Ontario Municipal Partnership Fund (OMPF) grants ($704 million) plus the uploads of ODB and ODSP administration uploads ($245 million)

- Municipalities will also continue to benefit from major infrastructure investments

ONGOING SUPPORT TO MUNICIPALITIES IS INCREASING

$2.7 BILLION OR 250% INCREASE OVER 2003 BY 2018



Includes uploads of social assistance benefit programs (ODB, ODSP & OW Benefits), Court Security, Community Reinvestment Fund (CRF)/Ontario Municipal Partnership Fund (OMPF), Provincial Gas Tax Funding, Public Health and Land Ambulance.

Does not include one-time investments such as *Investing in Ontario Act* and Municipal Infrastructure Investment Initiative.

Source: Ministries of Finance, Transportation, Health & Long-Term Care, Community & Social Services.

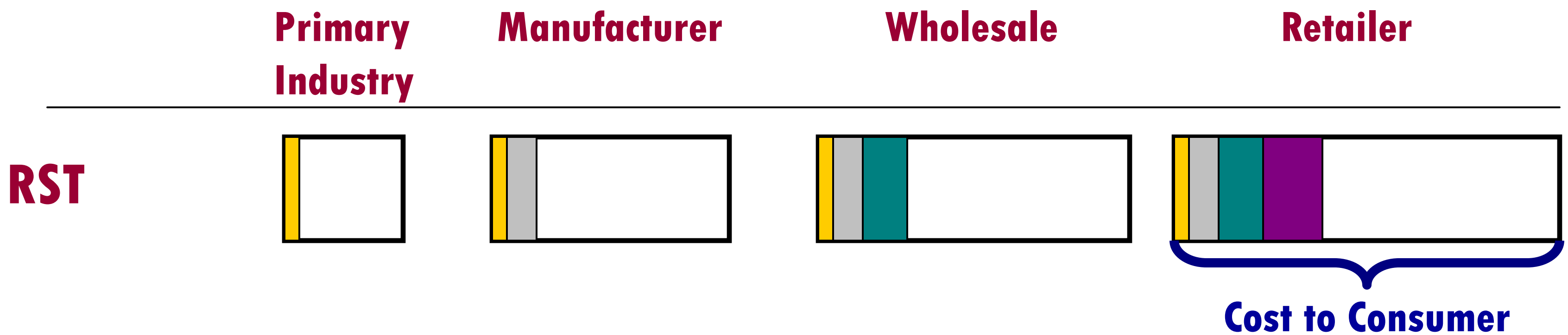
Provincial-Municipal Fiscal and Service Delivery Review: *Facing the Future Together* (October 2008)

International Calls for Harmonization

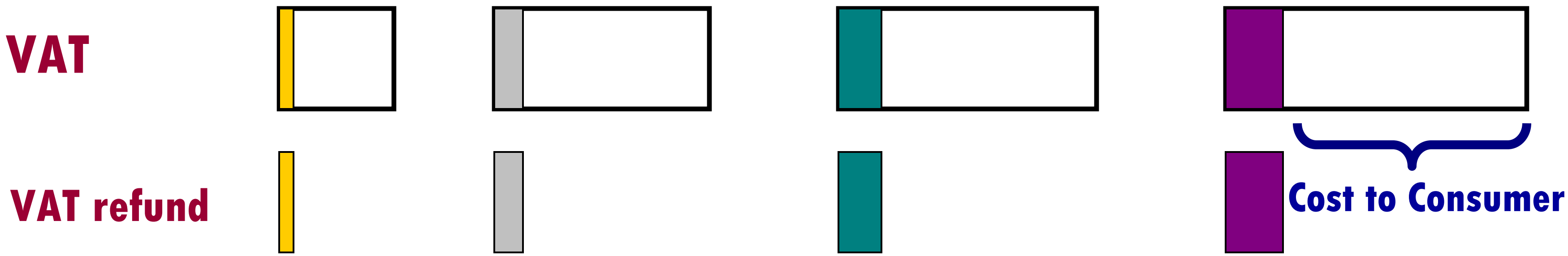
- In its *1990 Survey of Canada*, the OECD identified the lack of harmonization of provincial sales taxes with the GST as its “most important shortcoming” that would prevent Canada from gaining the full benefit of tax reform
- In its *2004 Survey of Canada*, the OECD noted that "A single rate, harmonised broad-based value-added sales tax system would …. promote investment, productivity and the competitiveness of Canadian-based firms…"
- In its *2008 Survey of Canada*, the OECD notes that "There has as yet been no progress on VAT harmonisation, and sales taxes will continue to add significantly to business capital costs in the five provinces with RSTs. Encouraging the provinces to go in the direction of such harmonisation is therefore appropriately a top priority of the federal government."

Difference Between RST and a VAT

Illustrative example



RST is charged on various costs throughout the supply chain resulting in embedded tax.



VAT is rebated at each stage of the supply chain eliminating embedded tax.

Sales Tax Reform

- More than 130 countries, including all OECD countries except the U.S., have a value-added tax
  - On July 23, 2009, BC announced its intention to harmonize its provincial sales tax effective July 1, 2010 at a proposed combined rate of 12% (7% provincial sales tax and 5% federal GST)
- Ontario's single sales tax would be treated the same as under the current GST rules. Items such as basic groceries and prescription drugs would not be taxable; it would apply to most other goods and services
- Ontario's portion of the single sales tax would allow for:
  - Point-of-sale exemptions on certain items: children's clothing and footwear, children's car seats and car booster seats, diapers, books and feminine hygiene products
  - Rebates up to $24,000 for new homes regardless of the price of the home. For new homes up to $400,000, this would mean, on average, no additional tax amount compared to the PST currently embedded in the price

Sales Tax Reform (cont'd)

- Businesses would save over $500 million a year in compliance costs
- Small business would receive one-time transitional support of up to $400 million
  - Most businesses, other than financial institutions, with less than $2 million in annual revenue from taxable sales, would be eligible for a transition credit of up to $1,000

Small Business Transition Credit	
Total Taxable Revenues in First Full Fiscal Quarter Commencing After June 30, 2010	Amount of Transition Credit
Up to and Including $15,000	$300
Over $15,000 and Up to and Including $50,000	2% of Taxable Revenue for that Quarter
Over $50,000 and Up to and Including $500,000	$1,000

Sales Tax Reform (cont'd)

- To reduce the administrative burden and complexity for small business, Ontario would parallel the GST small supplier threshold
  - Small suppliers with total taxable sales of $30,000 or less -$50,000 or less for a pubic service body – that choose not to register would not be required to file a single sales tax return
  - Those that choose to register would be eligible to claim input tax credits
- Vendor compensation would end as part of the transition to the single sales tax, but would apply for RST returns filed up to the period ending March 31, 2010

Sales Tax Reform (cont'd)

Temporarily Restricted Input Tax Credits for Large Businesses, with annual taxable sales over $10 million:

- Energy, except where purchased by farms or used to produce goods for sale
- Telecommunication services other than internet access or toll-free numbers
- Road vehicles weighing less than 3,000 kilograms (and parts and certain services) and fuel to power those vehicles
- Food, beverages and entertainment
- After the first five years of single sales tax implementation, full input tax credits on taxable supplies would be phased in over a three-year period

Other sales tax changes announced in the Budget:

- Maintaining current sales tax on certain types of insurance
- Applying sales tax to private transfers of motor vehicles
- Maintaining current levels of revenue from alcohol sales

Sales Tax Reform: Three Ways Business Save

Input Tax Credits on Business Purchases	Reducing Embedded Tax in Supplier Prices	Reducing Compliance Costs
Businesses would receive credits for sales tax they pay on many of their business inputs and capital investments While some business inputs were RST-exempt, many were RST-taxable Input Tax Credits would provide significant savings to business – direct benefit	Single sales tax would eliminate cascading layers of RST – embedded tax hidden in the purchase price Removing this embedded tax makes inputs cheaper Business save by removing sales tax embedded in the prices they pay their suppliers – indirect benefit	Businesses would save over $500 million a year One set of forms, one payment and one point of contact for audits, appeals and taxpayer services Eliminating the many complex RST rules that vendors currently face would result in further direct benefits to business

Tax Relief for People

Propose to provide **$10.6 billion in tax relief for people** over three years:

- **Personal Income Tax Relief** – $1.1 billion in ongoing, broadly based personal income tax cut
- **Ontario Property and Sales Tax Credits** – An additional $1 billion in enhanced tax credits
- **Sales Tax Transition Benefit** – $4 billion in cash payments to 6.5 million Ontario families and individuals

Tax Relief for People (cont'd)

- Personal Income Tax (PIT) Relief - $1.1 billion in ongoing, broadly based PIT cut - 93 per cent of Ontario taxpayers would get a tax cut; families and individuals with up to $80,000 of income would get an average tax cut of 10 per cent

Ontario Personal Income Tax Rates (%)		
Taxable Income[1]	Current (2009)	Proposed (2010)
$0 - $36,848	6.05	5.05
$36,848 - $73,698	9.15	9.15
> $73,698	11.16	11.16

[1] Taxable income thresholds would be adjusted in 2010 and future years to reflect Ontario inflation.

- Ontario would benefit from the lowest provincial tax rate in Canada on the first $36,848 of taxable income, based on legislation currently in place in other provinces

Tax Relief for People (cont'd)

- Ontario Sales Tax Credit – an enhanced credit of up to $260 a year for each adult and child in low-to middle-income families
  - Would be one of the most generous sales tax credits in Canada
  - About 2.9 million families and individuals would benefit from this measure
- Enhanced Refundable Ontario Property Tax Credit - an additional $270 million in property tax relief on an annual basis to low-to middle-income homeowners and tenants
  - Would provide a basic amount of up to $250 for non-seniors or $625 for seniors, plus 10 per cent of occupancy cost
  - About 2.3 million families and individuals would benefit from this measure

Tax Relief for People (cont'd)

- Sales Tax Transition Benefit - $4 billion in cash payments to 6.5 million Ontario families and individuals – totalling up to $1,000 for single parents and families and up to $300 for single people – in 2010 and 2011 to ease the transition to a new single sales tax

Ontario Sales Tax Transition Benefit				
	Single Individuals		Single Parents or Couples	
Payment Month	Maximum Benefit	Phase-out Range	Maximum Benefit	Phase-out Range
June 2010	$100	$80,000-$82,000	$330	$160,000-$166,600
December 2010	$100	$80,000-$82,000	$335	$160,000-$166,700
June 2011	$100	$80,000-$82,000	$335	$160,000-$166,700
Total	$300		$1,000	

Tax Relief for Businesses

Proposing $4.5 billion in tax relief for businesses over three years

Ontario's Proposed Corporate Income Tax Rate Cut Plan				
	Rates (Per Cent)			
Date	General	M&P	Small Business	Small Business Deduction Surtax
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

Budget also proposes to reduce the Corporate Minimum Tax (CMT) rate and to exempt more businesses from calculating and paying the CMT

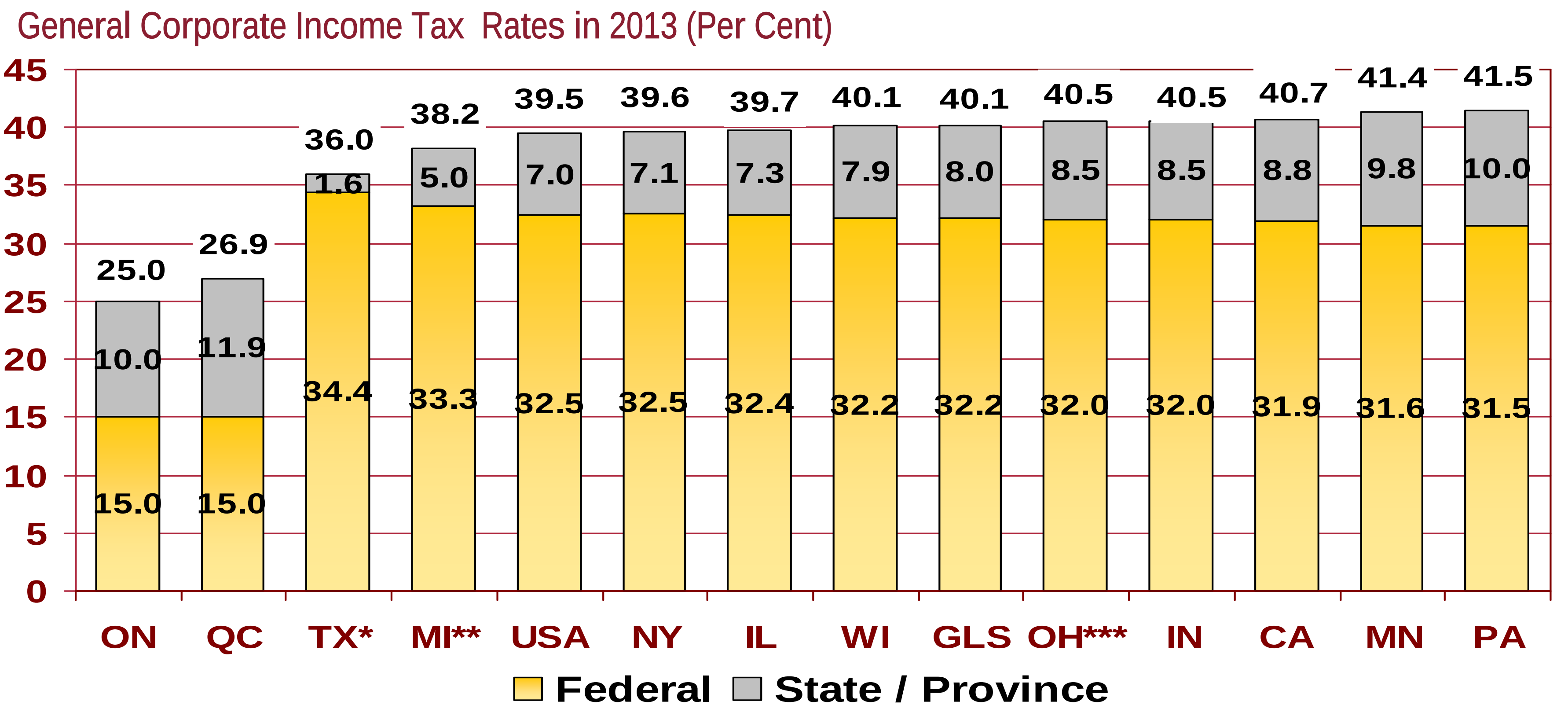
Tax Relief for Businesses

- Continue cutting high business education tax (BET) rates through the $540 million BET reduction plan announced in the 2007 Budget
  - Under this plan, high BET rates are being reduced to a target maximum rate by 2014
  - As a result of reassessment, the target maximum BET rate has been lowered from 1.60% to 1.52%
  - New construction will benefit from the 1.52% maximum BET rate immediately
- The 2008 Budget accelerated the BET cuts for businesses in northern Ontario to ensure that they benefit from the full BET cut by 2010, four years earlier than originally announced

Capital Tax Elimination

- In 2004, the government legislated a plan to eliminate Ontario's Capital Tax by 2012
- Since then, the government has accelerated the elimination plan and further relieved the Capital Tax burden on businesses
- Effective January 1, 2007, Capital Tax rates were cut by an additional 21 per cent and Capital Tax was eliminated for Ontario companies primarily engaged in manufacturing and processing and resource activities
- On January 1, 2010, Capital Tax rates will be cut by one-third and the tax will be fully eliminated on July 1, 2010
- The elimination of capital tax will provide **more than $1.5 billion in tax relief** for business

Ontario's Competitiveness to the U.S.



Notes: State corporate income tax is deductible for federal tax purposes, USA is US average, GLS is Great Lake States average.

* Texas has a gross receipts tax that has been estimated by the *Tax Foundation* to be equivalent to a CIT rate of 1.6%.

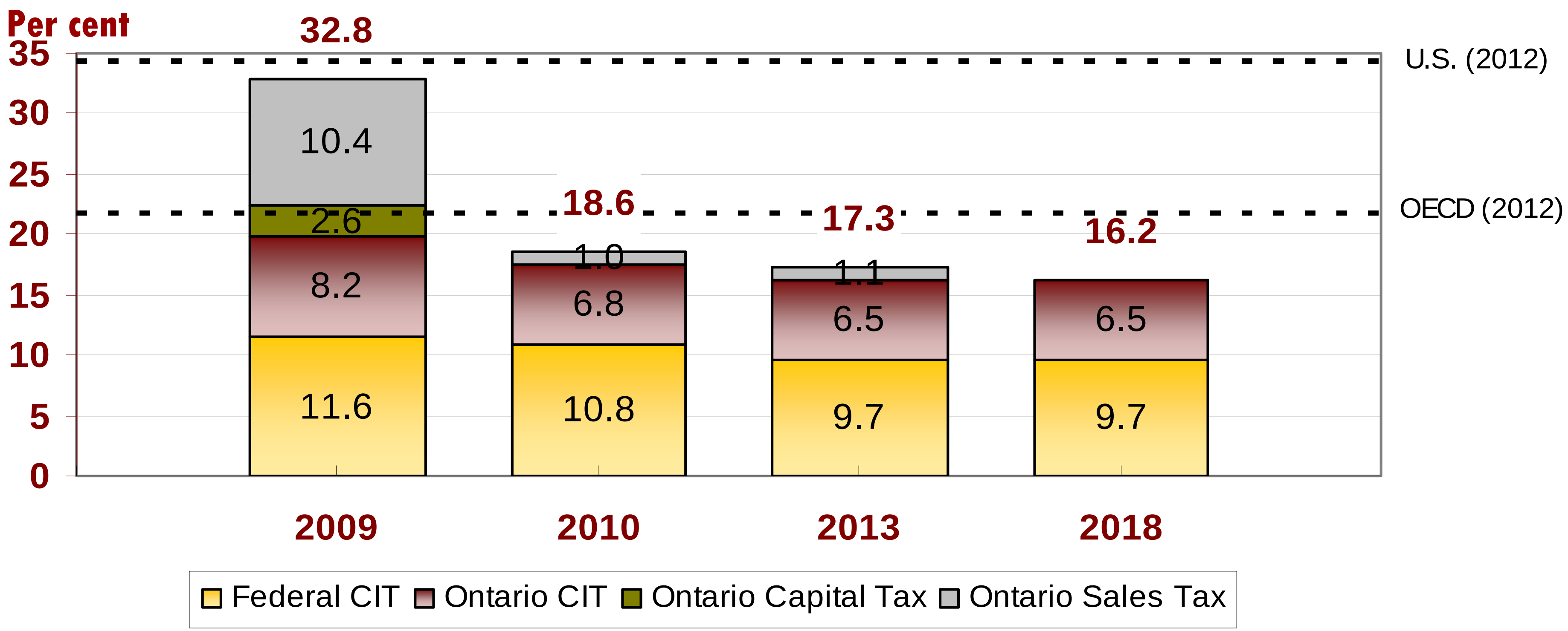
** Michigan's rate reflects the 4.95% income tax portion of their new Michigan Business Tax (MBT) but excludes the gross receipts portion of the MBT and the temporary 21.99% MBT surcharge.

*** Ohio is in the process of transitioning from a franchise tax to a gross receipts tax, which will be completed on January 1, 2010. The rate in the chart reflects the current franchise tax rate, which may understate the equivalent value of the gross receipts tax after transition.

Source: Ontario Ministry of Finance as of April 2009

Ontario's Global Competitiveness

Cutting Ontario's Marginal Effective Tax Rate on New Business Investment by Over Half



* Includes the Ontario corporate income tax rate cuts and single sales tax proposed in the 2009 Budget, the phase-out of Ontario's capital tax by July 1, 2010, and the reduction in the general federal corporate income tax rate to 15 per cent by 2012.

Sources: Ontario Ministry of Finance and Finance Canada.

Municipalities and the single sales tax

- Under the single sales tax, Ontario's public services bodies (including municipalities) would be kept, as a sector, fiscally neutral relative to the Retail Sales Tax (RST) they currently pay
- The single sales tax treatment would generally be the same as the treatment under the Goods and Services Tax (GST)
  - Municipalities would pay the single sales tax on purchases and apply for a proportional municipal public services body rebate. They can also claim input tax credits for taxable services they provide
  - The provincial rebate would be 78% of the provincial component of the tax
- Qualifying municipal transit authorities would also be eligible for the municipal public services body rebate. Transit fares and passes would be exempt from the single sales tax
- Certain supplies made by municipalities would now be subject to the provincial component of the tax (e.g., municipal golf course fees)

Tax Treatment of Municipal Inputs

Examples of Taxable Purchases Made by Municipalities
Rental, other machinery & equipment incl. construction
Computers, video units, and printers
Rental of automobiles & trucks
Software products development
Telecommunications
Automotive repair and maintenance service
Input into amusement and recreation services
Automobiles
Computer lease & rental (hardware)
Fire fighting & traffic control equipment
Recreational equipment
Office furniture and supplies
Insurance

- Many municipal purchases are currently taxable under RST (see left box)
- Municipalities would now pay tax on some additional inputs (see box below)
- Municipalities would generally be able to claim input tax credits for purchases and expenses incurred to make taxable supplies

Examples* of Municipal Purchases that would become taxable
Processing materials used in a manufacturing operation
Professional services (e.g. accounting & legal)
Custom computer programs
Chemicals used in the treatment of sewage and water
* For illustrative purposes only

Rebates for Public Service Bodies

Ontario's public service bodies would be able to claim provincial rebates to keep them fiscally neutral on a sector by sector basis.

	GST & Federal HST	Nova Scotia	New Brunswick*	Nfld. & Labrador	Québec	Ontario Proposed***
Municipalities	100%	57%	57%	0%	0%**	78%
Universities and Colleges	67%	67%	0%	0%	47%	78%
School Boards	68%	68%	0%	0%	47%	93%
Hospitals	83%	83%	0%	0%	52%	87%
Charities and Qualifying Non-Profit Organizations	50%	50%	50%	50%	50%	82%

* In New Brunswick, Universities and Colleges, School Boards and Hospitals are provincial Crown agents covered under the government rebate.

** Québec intends to move to a 100% QST rebate for municipalities in 2014 when it changes its funding formula for municipalities.

*** Rebate of provincial portion of tax paid based on federal GST public service body definitions.

Note: In BC, a rebate of the provincial portion of the BC HST is proposed for those local governments, charities and qualifying not-for-profit organizations that currently qualify for the federal rebate of GST. No details as to the rebate percentages have been provided.