

2023 Issue No. 16
23 March 2023

Tax Alert – Canada

Ontario budget 2023-24

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

“Our plan is building Ontario so we can have a strong economy for the future and the infrastructure needed to support growth across the province.”

“It is a plan that will balance the Budget. Responsibly eliminating Ontario’s deficit, while delivering on the priorities of the people and businesses of Ontario, is part of the long-term vision this province needs.”

*Ontario Finance Minister Peter Bethlenfalvy
2023-24 budget, Minister’s Foreword and Introduction*

On 23 March 2023, Ontario Finance Minister Peter Bethlenfalvy tabled the province’s fiscal 2023-24 budget. The budget contains tax measures mainly affecting corporations.

The minister anticipates a deficit of \$1.3 billion for 2023-24 and projects surpluses of \$0.2 billion in 2024-25 and \$4.4 billion in 2025-26.

Following is a brief summary of the key tax measures.

Business tax measures

Corporate income tax rates

No changes are proposed to the corporate income tax rates or the \$500,000 small-business limit.

Ontario’s 2023 corporate income tax rates are summarized in Table A.

Table A - 2023 Ontario corporate income tax rates¹

	ON	Federal and ON combined
Small-business tax rate ²	3.20%	12.20%
General manufacturing and processing tax rate ²	10.00%	25.00%
General corporate tax rate ^{2, 3}	11.50%	26.50%

¹ The rates represent calendar-year-end rates unless otherwise indicated.

² The federal corporate income tax rates for manufacturers of qualifying zero-emission technology are reduced to 7.5% for eligible income otherwise subject to the 15% federal general corporate income tax rate or 4.5% for eligible income otherwise subject to the 9% federal small-business corporate income tax rate. These reductions are not reflected in the combined federal and Ontario rates above.

³ An additional tax applies to banks and life insurers at a rate of 1.5% on taxable income (subject to a \$100 million exemption to be shared by group members), effective for taxation years ending after 7 April 2022 (prorated for taxation years straddling this effective date).

Other business tax measures

The minister also proposed the following business tax measures:

- ▶ **Ontario made manufacturing investment tax credit** – As previously announced on 22 March 2023, the budget is introducing a 10% refundable corporate income tax credit for qualifying investments of up to \$20 million per taxation year made by eligible corporations, for a maximum credit of \$2 million a year. Eligible corporations will be Canadian-controlled private corporations (CCPCs) that have a permanent establishment in Ontario. The \$20 million limit will be shared by an associated group of corporations and will be prorated for short taxation years.

Qualifying investments consist of expenditures included in Class 1 for capital cost allowance purposes for the construction, renovation or acquisition of buildings that become available for use on or after 23 March 2023, and expenditures for machinery and equipment included in Class 53 that are acquired and become available for use on or after 23 March 2023 and before 2026. The buildings and machinery and equipment must be used for the manufacturing or processing of goods in Ontario. After 2025, qualifying investments in machinery and equipment will consist of expenditures included in Class 43(a) that are used in the manufacturing or processing of goods for sale or lease.

- ▶ **Small-business deduction** - The budget confirms, as previously announced in the province's fall economic statement delivered on 14 November 2022, that Ontario is paralleling the federal increase in the upper value of the range over which the small-business deduction is phased out from \$15 million to \$50 million, effective for taxation years beginning on or after 7 April 2022.

As a result of this measure, the small-business deduction will not be reduced to nil until a CCPC and its associated corporations have combined taxable capital employed in Canada of \$50 million or more.

- ▶ **Ontario film and television tax credits** - Ontario is continuing to work on commitments to modernize the film and television tax credits regime, which were first announced in the province's 2022 Budget and 2022 Economic Outlook and Fiscal Review.

As part of these proposals, the Ontario film and television tax credit and the Ontario production services tax credit eligibility would be extended to professional film and television productions that are distributed exclusively online. The province released draft regulatory amendments on 21 February 2023, which will be available for public comment until 11 April 2023.

As well, film and television productions supported by Ontario tax credits would be required to provide on-screen acknowledgment of this support in their end credits. Draft regulatory amendments to this effect were included as part of the draft amendments released by Ontario on 21 February 2023.

The government aims to simplify the Ontario computer animation and special effects tax credit to reduce administrative complexity while ensuring that targeted support remains available to professional productions with significant cultural or economic impact.

The government will proceed with the 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 across the province.

Personal tax

Personal income tax rates

The budget does not include any changes to personal income tax rates.

The 2023 Ontario personal income tax rates are summarized in Table B.

Table B - 2023 Ontario personal income tax rates^{1,2}

First bracket rate ³	Second bracket rate	Third bracket rate	Fourth bracket rate	Fifth bracket rate
\$0 to \$49,231	\$49,232 to \$98,463	\$98,464 to \$150,000	\$150,001 to \$220,000	Above \$220,000
5.05%	9.15%	11.16%	12.16%	13.16%

¹ In addition, for 2023, a 20% surtax applies to basic Ontario tax in excess of \$5,315, and an additional 36% surtax applies to basic Ontario tax in excess of \$6,802.

² Individuals resident in Ontario on 31 December 2023 with taxable income in excess of \$20,000 must pay the Ontario Health Premium. The premium ranges from nil to \$900 depending on the individual's taxable income, with the top premium being payable by individuals with taxable income in excess of \$200,599.

³ Individuals resident in Ontario on 31 December 2023 with taxable income up to \$17,291 pay no provincial income tax as a result of a low-income tax reduction. The low-income tax reduction (\$274 of Ontario tax) is clawed back for income in excess of \$17,291 until the reduction is eliminated, resulting in an additional 5.05% of provincial tax on income between \$17,292 and \$22,716.

For taxable income in excess of \$165,430, the 2023 combined federal-Ontario personal income tax rates are outlined in Table C.

Table C - Combined 2023 federal and Ontario personal income tax rates

Bracket	Ordinary income ¹	Eligible dividends	Non-eligible dividends
\$165,431 to \$220,000 ²	48.29%	32.11%	41.71%
\$220,001 to \$235,675 ²	49.85%	34.26%	43.50%
Above \$235,675	53.53%	39.34%	47.74%

¹ The rate on capital gains is one-half the ordinary income tax rate.

² The federal basic personal amount comprises two elements: the base amount (\$13,521 for 2023) and an additional amount (\$1,479 for 2023). The additional amount is reduced for individuals with net income in excess of \$165,430 and is fully eliminated for individuals with net income in excess of \$235,675. Consequently, the additional amount is clawed back on net income in excess of \$165,430 until the additional tax credit of \$222 is eliminated; this results in additional federal income tax (e.g., 0.32% on ordinary income) on net income between \$165,431 and \$235,675.

Other tax measures

Liquor tax

Ontario is proposing a single 12% basic tax rate on wine and wine coolers sold in off-site winery retail stores, including wine boutiques, effective 1 July 2023. This single rate would replace the four separate basic tax rates that apply currently to off-site winery retail stores. This measure is in response to a World Trade Organization settlement reached between Canada and Australia.

Other measures

Review of Ontario's tax system

The government has committed to reviewing the province's tax system. The tax review will prioritize competitiveness and long-term growth in Ontario, as well as the fairness and effectiveness of tax relief and supports. In addition, the review will also focus on modernized tax administration tools.

Modernizing Ontario's tax administration system

The province is also making improvements to simplify tax administration by creating a more convenient, modern and digital platform, improving the customer service experience, and ensuring the delivery of tax and benefit services is both simple and quick. These improvements will be brought about through continued investments in information technology infrastructure and the collection of client feedback.

Call for GST/HST relief for new housing

Ontario is seeking to engage with the federal government to explore the possibility of providing GST/HST relief, including rebates, exemptions, zero-rating or deferrals, to support new housing and rental development in the province.

Learn more

For more information, please contact your EY or EY Law advisor or one of the following professionals:

Toronto

Karen Atkinson

+1 416 943 2172 | karen.e.atkinson@ca.ey.com

Ottawa

Darrell Bontes

+1 613 598 4864 | darrell.bontes@ca.ey.com

London

Heather Wright

+1 519 646 5521 | heather.a.wright@ca.ey.com

Waterloo

Tim Rollins

+1 519 571 3379 | tim.rollins@ca.ey.com

Ameer Abdulla

+1 519 571 3349 | ameer.abdulla@ca.ey.com

And for up-to-date information on the federal, provincial and territorial budgets, visit ey.com/ca/Budget.

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation is available via ey.com/privacy. For more information about our organization, please visit ey.com.

About EY's Tax Services

EY's tax professionals across Canada provide you with deep technical knowledge, both global and local, combined with practical, commercial and industry experience. We offer a range of tax-saving services backed by in-depth industry knowledge. Our talented people, consistent methodologies and unwavering commitment to quality service help you build the strong compliance and reporting foundations and sustainable tax strategies that help your business achieve its potential. It's how we make a difference.

For more information, visit ey.com/ca/tax.

About EY Law LLP

EY Law LLP is a national law firm affiliated with EY in Canada, specializing in tax law services, business immigration services and business law services.

For more information, visit eylaw.ca.

About EY Law's Tax Law Services

EY Law has one of the largest practices dedicated to tax planning and tax controversy in the country. EY Law has experience in all areas of tax, including corporate tax, human capital, international tax, transaction tax, sales tax, customs and excise.

For more information, visit <http://www.eylaw.ca/taxlaw>

© 2023 Ernst & Young LLP. All Rights Reserved.

A member firm of Ernst & Young Global Limited.

This publication contains information in summary form, current as of the date of publication, and is intended for general guidance only. It should not be regarded as comprehensive or a substitute for professional advice. Before taking any particular course of action, contact EY or another professional advisor to discuss these matters in the context of your particular circumstances. We accept no responsibility for any loss or damage occasioned by your reliance on information contained in this publication.

ey.com/ca