

TAX FLASH BULLETIN

2018 ONTARIO ECONOMIC UPDATE HIGHLIGHTS

On November 15, 2018, new Ontario Finance Minister, Vic Fedeli tabled the province's 2018 Ontario Economic Outlook and Fiscal Review. The minister forecasts the 2018-19 fiscal year will end with a \$14.5 billion deficit in contrast to the previous government's forecast of a \$6.7 billion deficit. The new government engaged the Independent Financial Commission of Inquiry to review the financial and accounting practices of the previous government. The Commission confirmed the 2018 Budget numbers were "not a reasonable representation of Ontario's finances." The Commission concluded that the government inherited a deficit of \$15 billion for 2018-19, \$8.3 billion higher than previously forecast.

Below, we have highlighted selected proposals from the Economic Outlook that affect individuals and businesses in Ontario.

INDIVIDUALS

Personal Tax Rates

The current government is not proceeding with the previous government's budget proposals to eliminate the Ontario surtax and adjust the existing personal income tax brackets and rates.

Ontario Income Tax Brackets and Tax Rates

2018 Taxable Income	Tax Rate	2018 Rate with Surtax Impact
\$0 to \$42,960	5.05%	5.05%
\$42,960 to \$85,923	9.15%	9.15% - 13.39%
\$85,923 to \$150,000	11.16%	13.39% - 18.97%
\$150,000 to \$220,000	12.16%	18.97% - 20.53%
Over \$220,000	13.16%	20.53%

Ontario Surtaxes

2018 Ontario Tax	2018 Surtax Rate on Tax
\$0 to \$4,638	-
\$4,638 to \$5,936	20% in excess of \$4,638
Over \$5,936	36% in excess of \$5,936 + 20% of tax in excess of \$4,638

The Ontario surtax is a tax that is calculated on the base amount of Ontario tax. Basically, it is a tax on tax.

Top Combined Ontario and Federal Rates

Income Type	2017	2018
Salary, interest, pension, foreign income	53.53%	53.53%
Eligible dividends	39.34%	39.34%
Non-eligible dividends	45.30%	46.84%
Capital gains	26.77%	26.77%

Top rates apply to taxable income over \$220,000 based on known federal and provincial rates as of November 15, 2018.

Low-income Individuals and Families Tax (LIFT) Credit

The government intends to eliminate Ontario provincial tax for low-income taxpayers and families with employment income by introducing the LIFT credit. The credit is equal to the lesser of \$850 and 5.05% of employment income. The credit will be clawed back by 10% of the greater of adjusted individual net income in excess of \$30,000 and adjusted family net income in excess of \$60,000. The benefit of the credit will be completely eliminated when adjusted individual net income exceeds \$38,500 and when adjusted family net income exceeds \$68,500.

Employment income	LIFT credit rate	10% reduction	Credit eliminated
Adjusted individual net income	Lesser of \$850 and 5.05% of employment income	On income in excess of \$30,000	When income greater than \$38,500
Adjusted family net income		On income in excess of \$60,000	When income greater than \$68,500

This tax measure will be effective January 1, 2019. Individuals resident in Canada at the beginning of the year and resident in Ontario at the end of the year would be eligible for the LIFT credit.

Restricting OHIP+ for Children and Youth

Last year, Ontario introduced the Ontario Health Insurance Plan Plus (OHIP+) program to provide free prescription medications to all children and youth under age 25, regardless of income. The new government proposes to restrict those benefits to only children and youth who are not covered by private plans. This measure will be effective March 2019.

Cancelling the Cap-and-Trade Carbon Tax

After cancelling the cap-and-trade carbon tax as of October 1, 2018, the minister reassured Ontarians the province will continue to challenge the federal government on its carbon tax plan in order to reduce taxes and encourage a more competitive business climate in Ontario.

Regulation of Financial Planners and Advisors

In the interest of consumer protection, the previous government developed a regulatory framework to ensure financial planners are subject to regulatory oversight and meet specified proficiency requirements. Regulation is also intended to restrict the use of titles related to financial planning. The new government will review those measures to ensure consumers only deal with financial advisors who have received the appropriate training and are subject to regulatory oversight.

BUSINESSES

The minister did not propose any changes to Ontario corporate tax rates or the \$500,000 small business income (SBD) threshold.

2018 Ontario Corporate Tax Rates

Income Type	Ontario Rate	Federal Rate	Calendar 2018 Combined Rates
General corporate income	11.50%	15.00%	26.50%
Small business income	3.50%	10.00%	13.50%
CCPC* investment income	11.50%	38.67%	50.17%
Non-CCPC investment income	11.50%	15.00%	26.50%
Manufacturing & processing income	10.00%	15.00%	25.00%

*Canadian-controlled private corporation

Based on known rates as of November 15, 2018

Not Paralleling Federal Measures for Passive Investment Income

The government will propose legislation to ensure Ontario will not parallel the following federal changes to restrict the small business deduction limit for private corporations that earn over \$50,000 in passive investment income in a taxation year. The intention is for all eligible small businesses in Ontario to continue to benefit from the Ontario small business tax rate.

Indexing of Employer Health Tax (EHT) Exemption for Small Employers

Currently, the Employer Health Tax (EHT) exemption provides cost relief to small businesses in Ontario for payrolls up to \$450,000. Based on Ontario's Consumer Price Index, the EHT exemption will increase to \$490,000 as of January 1, 2019.

The government does not intend to move forward with the previous government's proposals to provide the EHT exemption to businesses that are eligible for the small business deduction.

Review of Ontario Research and Development Tax Credit (ORDTC)

The ORDTC is a 3.5% non-refundable tax credit on eligible Research and Development (R&D) expenditures. In an effort to increase spending by Ontario businesses to develop new technologies and processes, the previous government proposed to increase the ORDTC rate to 5.5% on expenditures over \$1 million in a taxation year. The new government will not be implementing this change and will review tax support for such activities.

Review of Ontario Innovation Tax Credit (OITC)

The OITC is a refundable tax credit equal to 8% of eligible R&D expenditures made by small- to medium-sized companies. The previous government proposed to enhance the OITC to encourage smaller companies to make growth investments in R&D. The new government will not be implementing this change and will review tax support for such activities.

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