



TaxNewsFlash Canada

Ontario Drops Small Business Tax Rate for 2020

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Ontario's Minister of Finance Rod Phillips announced that Ontario will decrease the small business tax rate to 3.2% (from 3.5%). The province's Fall Economic Update, released on November 6, 2019, also increases the non-eligible dividend tax rate for individuals and reduces the tax rate on aviation fuel for certain northern regions. These changes are effective as of January 1, 2020.

Corporate tax changes

Small business corporate income tax rate

The update reduces Ontario's small business corporate income tax rate that applies to the first \$500,000 of qualifying active business income of a Canadian-controlled private corporation to 3.2% (from 3.5%) effective January 1, 2020. The tax rate reduction would be prorated for taxation years straddling January 1, 2020. As a result, Ontario's corporate income tax rates will be as follows:

Ontario Corporate Income Tax Rates				
	Ontario		Combined Federal and Ontario	
	2019	2020	2019	2020
General	11.5%	11.5%	26.5%	26.5%
M&P	10%	10%	25%	25%
Small business ¹	3.5%	3.2% ²	12.5%	12.2% ²

¹ On the first \$500,000 of active business income

² Effective January 1, 2020

Personal tax changes

Non-eligible dividend tax rate

As a result of the decrease to the small business tax rate, the Ontario update also effectively increases the tax on non-eligible dividends, effective January 1, 2020. Therefore, the combined federal/Ontario top marginal tax rate on non-eligible dividends will be:

Non-eligible dividends		
	2019	2020
Federal	27.57%	27.57%
Ontario	19.83%	20.17%
Total	47.40%	47.74%

Indirect tax measures

Aviation fuel tax

Ontario also announced it will reduce the aviation fuel tax rate in Northern Ontario to 2.7 cents per litre (from 6.7 cents per litre) effective January 1, 2020. This reduction will apply to the districts of Algoma, Cochrane, Kenora, Manitoulin, Nipissing, Parry Sound, Rainy River, Sudbury, Thunder Bay and Timiskaming.

Interest on refunds

The update also includes an administrative measure to align the timeline for calculating interest on refunds under the *Gasoline Tax Act* with the calculation under the *Fuel Tax Act*.

We can help

Your KPMG adviser can help you assess the effect of the tax changes in this year's Ontario Economic Update on your personal finances or business affairs, and point out ways to take advantage of their benefits or ease their impact. We can also keep you abreast of the progress of these proposals as they make their way into law.

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