



# TaxNewsFlash

Canada

## Highlights of the 2020 Ontario Budget

November 5, 2020

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Ontario's Finance Minister Rod Phillips delivered the province's 2020 budget on November 5, 2020. The budget anticipates a deficit of \$38.5 billion for 2020 and projects deficits of \$33.1 billion for 2021 and \$28.2 billion for 2022. Although the budget does not include any new changes to the corporate or personal tax rates, it reduces property taxes for certain businesses, makes permanent the increase to the Employer Health Tax (EHT) exemption, and extends deadlines for cultural media and research and development tax credits.

### Corporate tax changes

#### *Corporate income tax rates*

The budget does not announce changes to the province's corporate tax rates. As a result, Ontario's corporate income tax rates remain as follows:

Corporate Income Tax Rates — As of January 1, 2020		
	Ontario	Combined Federal and Ontario
General	11.50%	26.50%
M&P	10.00%	25.00%
Small business <sup>1</sup>	3.20%	12.20%

<sup>1</sup> On first \$500,000 of active business income.

#### *Ontario Film and Television Tax Credit*

The budget temporarily extends certain deadlines for claiming the Ontario Film and Television Tax Credit. Specifically, the budget allows companies to claim the credit where they:

- File an application for a certificate of completion within 48 months of the year end in which principal photography begins (up from 24 months), with the option to further extend this deadline by an additional 18 months
- Claim eligible expenditures up to 48 months before principal photography begins (up from 24 months)
- Have an agreement in writing to have the production shown in Ontario within four years of the production being complete and becoming commercially exploitable (up from two years).

This relief is available to productions for which eligible expenditures were incurred prior to March 15, 2020 and which were not completed, certified by Ontario Creates or deemed ineligible for the tax credit by Ontario Creates before March 15, 2020.

#### *Ontario Production Services Tax Credit*

The budget temporarily allows certain companies an additional 24 months to exceed minimum spending requirements to qualify for the Ontario Production Services Tax Credit (e.g., \$1 million for feature films). This measure would apply to productions for which eligible expenditures were incurred in Ontario in taxation years ending in 2020 and 2021.

The budget temporarily allows certain companies to claim otherwise eligible expenditures incurred in the two taxation years prior to the year in which principal photography begins. Currently, a production cannot claim the credit until the taxation year in which principal photography commences. This measure would apply to productions that incurred otherwise eligible expenditures in Ontario in taxation years ending in 2020 and 2021.

#### *Ontario Interactive Digital Media Tax Credit*

The budget temporarily allows eligible labour expenditures for the Ontario Interactive Digital Media Tax Credit to be incurred during the 61-month period prior to product completion (up from 37 months). This relief applies for products that were not completed before March 15, 2020, and for which eligible labour expenditures were incurred in the 2020 taxation year.

#### *Ontario Book Publishing Tax Credit*

The budget temporarily waives the eligibility requirement for the Ontario Book Publishing Tax Credit that a literary work must be published in a bound edition of at least 500 copies. This relief applies for the 2020 and 2021 taxation years.

#### *Research and development credit — Reporting period extension*

The budget temporarily extends the reporting period to claim an Ontario Research and Development Tax Credit (ORDTC). As a result, corporations with tax year-ends from September

13, 2018 to December 31, 2018 would have an additional six months to file an ORDT claim and those with tax year-ends from January 1, 2019 to June 29, 2019 would have until December 31, 2020 to file a claim.

## Personal tax changes

### Personal income tax rates

The budget does not announce changes to personal tax rates. As a result, Ontario's personal income tax rates effective January 1, 2020 are as follows:

Personal Combined Federal/Ontario Top Marginal Rates	
	2020
Interest and regular income	53.53%
Capital gains	26.76%
Eligible dividends	39.34%
Non-eligible dividends	47.74%

### Senior's Home Safety Tax Credit

The budget proposes a temporary new refundable personal income tax credit for seniors who make improvements that make their homes safer and more accessible, starting in 2021. The Seniors' Home Safety Tax Credit would be a 25% credit on up to \$10,000 in eligible expenses for a senior's principal residence in Ontario, up to a maximum credit of \$2,500. The credit would be available for certain eligible expenses that are paid or become payable in 2021, such as wheelchair ramps or lifts, and certain grab bars.

Generally, this credit could be claimed by senior homeowners, renters or people who live with relatives who are seniors. Further, the \$10,000 maximum could be shared by the people who share a home, including spouses and common-law partners.

### Support for Learners

The budget provides another one-time payment to Ontario families of \$200 per child aged 12 and under. The maximum payment per child is increased to \$250 for children who have special needs and are 21 years old or younger.

## Indirect tax changes

### Allow municipalities to cut property taxes for small businesses

The budget allows municipalities to reduce property taxes for small business beginning in 2021. The budget provides municipalities with the tools to adopt a new optional property subclass for small business properties to achieve this reduction, and notes that Ontario will also consider matching these municipal property tax reductions.

### Business Education Tax rates

The budget reduces the Business Education Tax rates for businesses subject to the highest rates to 0.88% for both commercial and industrial properties beginning in 2021. According to the province, this measure is intended to address a variation in Business Education Tax rates across different regions, and reduces the rate by 30% for businesses that are currently subject to the highest rate.

#### *Make the increase to the Employer Health Tax exemption permanent*

The budget permanently increases the Employer Health Tax (EHT) exemption that was introduced as a temporary measure in March 2020, effective January 1, 2020 and originally set to expire January 1, 2021 (see *TaxNewsFlash-Canada* 2020-30, "[Highlights of Ontario's 2020 Economic and Fiscal Update](#)"). As a result, private sector employers with a total annual remuneration of less than \$5 million will continue to be exempt from EHT on up to \$1 million (from \$490,000) of their payroll after December 31, 2020. The highest EHT rate is 1.95%.

The budget also increases the threshold payroll amount beyond which employers are required to pay EHT installments to \$1.2 million (from \$600,000), starting in 2021. As a result, private-sector employers who claim the full exemption would be required to remit EHT installments when they owe more than \$3,900 in EHT for the year. The EHT exemption is indexed to inflation, and the next adjustment is scheduled for January 1, 2029.

#### *Property tax and assessment system review*

The budget affirms Ontario's prior commitment to review its property tax and assessment system, as it previously announced in Ontario's 2019 budget (see *TaxNewsFlash-Canada* 2019-17, "[Highlights of the 2019 Ontario Budget](#)").

#### *Alcohol tax rates*

The budget freezes beer tax rates until March 1, 2022, and retroactively cancels the increase in wine basic tax rates legislated to occur on June 1, 2020, which the province previously prevented from being applied between June 1, 2020 and December 31, 2020.

#### **We can help**

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

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