

TAX LETTER

TAX HIGHLIGHTS OF THE 2007 ONTARIO ECONOMIC OUTLOOK AND FISCAL REVIEW

On December 13, 2007, Ontario delivered its *Economic Outlook and Fiscal Review*, which proposed certain tax measures. The highlights of the announcement have been summarized below.

CORPORATE TAX MEASURES

Small Business Deduction

These measures increase the small business deduction threshold from \$400,000 to \$500,000, retroactive to January 1, 2007.

The small business deduction will be phased out once income reaches \$1,500,000 (rather than \$1,128,519).

Capital Tax - Manufacturing and Resource Corporations

Capital tax was previously scheduled to be eliminated effective July 1, 2010. However, this elimination has been accelerated for manufacturing and resource corporations.

If a corporation's salaries and wages relating to manufacturing and processing, mining, logging, farming and fishing activities in Ontario as a percentage of its total salary and wages in Ontario are:

- 50% or more, then the capital tax will be eliminated, effective January 1, 2008.
- Less than 50% but more than 20%, then capital tax will be reduced proportionally on a straight-line basis, from January 1, 2008 to July 1, 2010. The Ministry of Finance provided the following example: a corporation whose Ontario salaries and wages for these activities are 35% of total Ontario salaries and wages would have one-half of its capital tax eliminated. Effective July 1, 2010, capital tax would be eliminated as previously scheduled.
- 20% or less, then capital tax will be eliminated, effective July 1, 2010 (as previously scheduled).

Capital Tax - Other Corporations

Capital tax rate reductions previously announced to apply on January 1, 2009 are accelerated to apply effective January 1, 2007. As such, the capital tax rate that applies on January 1, 2007 has been reduced from 0.285% to 0.225%.



Film and Television Industry

Enhancements to two film tax credits relating to labour expenditures incurred in 2008 and 2009:

- Ontario Film and Television Tax Credit: rate increase from 30% to 35%; and
- Ontario Production Services Tax Credit: rate increase from 18% to 25%.

PERSONAL TAX MEASURES

Land Transfer Tax Refund

The Land Transfer Tax Refund Program for First-Time Homebuyers will be expanded to include purchases of resale homes. As a result, first-time homebuyers of either newly constructed or resale homes would be able to receive a refund of up to \$2,000. This measure would apply for agreements of purchase and sale entered into after December 13, 2007.

Labour-Sponsored Investment Funds (LSIFs)

Ontario proposes to increase the maximum investment that qualifies for the provincial tax credit from \$5,000 to \$7,500.

In addition, the phase-out of the tax credit will be extended until 2011. The proposed revised tax credit rates are:

- 15% until the end of 2009 tax year;
- 10% for 2010 tax year; and
- 5% for 2011 tax year.

SOBERMAN LLP

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