



Ontario Ministry of Finance

Budget 2017

[Budget 2017](#) > Chapter VII

Chapter VII: Taxation

Page Contents

1. [Introduction](#)
2. [Paralleling Federal Measures](#)
3. [Other Measures](#)
4. [Technical Measures](#)
5. [Supporting Smoke-Free Ontario](#)
6. [Strengthening the Governance of the Municipal Property Assessment Corporation](#)
7. [Property Tax Measures](#)

Introduction

Ontario's business taxes have positioned it as an attractive jurisdiction for business investment. Ontario also has progressive personal income taxes and provides substantial support to low- to moderate-income individuals and families.

The government is proposing measures to curb tax avoidance, parallel federal tax changes, and support the climate change action plan. In addition, changes to tobacco tax rates are being implemented to support key government priorities.

Details of tax measures related to housing affordability can be found in [Chapter II: Helping You and Your Family](#).

The Province is also working with municipalities, the Municipal Property Assessment Corporation (MPAC) and taxpayers to enhance the fairness and effectiveness of Ontario's property tax and assessment system, which is critical to support local services and adequately fund Ontario's schools.

A list of proposed legislative amendments is also included.

Section A: Taxation

Paralleling Federal Measures

Clarifying the Treatment of Fertility-Related Expenses under the Medical Expense Tax Credit

In 2015, Ontario announced it would increase access to fertility treatments to help more people expand their families.

The Ontario Fertility Program provides publicly funded fertility services at 51 fertility clinics across the province. For example, since its launch in December 2015, the program has helped over 7,200 individuals trying to start or expand their families through in vitro fertilization. The program is available to eligible Ontarians of any sex, gender, sexual orientation or family status.

The 2017 federal budget proposed to clarify the application of the federal medical expense tax credit so that individuals who require medical intervention to conceive a child are eligible to claim the same expenses that would generally be eligible for individuals on account of medical infertility. These changes will apply to the 2017 and subsequent taxation years.

Ontario's medical expense tax credit parallels the federal credit. Ontario will adopt the federal changes once they have been approved by the federal government. This would allow Ontarians to claim tax relief for eligible fertility treatment costs that are not directly covered by the Province, giving even more support to help everyone who wants to conceive a child.

Consolidating Tax Credits for Caregivers

In its 2017 budget, the federal government proposed to simplify its existing system of personal income tax credits for caregivers by creating a new consolidated Canada Caregiver Credit. This federal credit would be effective beginning in the 2017 taxation year.

Ontario parallels the federal caregiver and infirm dependant tax credits. To simplify and enhance access to tax relief for caregivers, Ontario proposes to replace the provincial caregiver and infirm dependant tax credits with a new Ontario Caregiver Tax Credit (OCTC). The following changes would apply beginning in the 2017 taxation year:

- The non-refundable OCTC, at the rate of 5.05 per cent, would be available in respect of relatives who are infirm dependants, including adult children of the claimant or of the claimant's spouse or common-law partner.
- Dependants would not be required to live with the caregiver claiming the new credit.
- The maximum amount received in respect of dependants who do not live with the caregiver would be increased to remain consistent with the amount that could have been claimed in respect of dependants under the caregiver tax credit.
- For the 2017 taxation year, the maximum amount of taxable income for which this credit is available would be \$4,794. The OCTC would begin phasing out at the dependant's net income over \$16,401.
- The OCTC would not be available in respect of non-infirm senior parents or grandparents who reside with their adult children or grandchildren.

For further details on support for caregivers, see [Chapter IV, Section A: Strengthening Health Care](#).

Other Measures

Lowering Public Transit Costs for Seniors

As mentioned in [Chapter II: Helping You and Your Family](#), the government is proposing a new Ontario Seniors' Public Transit Tax Credit for all Ontarians aged 65 or older, covering eligible public transit costs as of July 1, 2017.

The credit would be available to claim on the 2017 taxation year returns. Further details about the credit, including eligibility criteria for public transit costs, will be announced in time for implementation.

Granting Municipalities the Authority to Levy a Hotel Tax

The *City of Toronto Act, 2006* (COTA) gives broad, permissive authority for the City to levy its own taxes. The authority currently does not allow the City to levy a tax on transient accommodation (hotel tax). It is proposed the authority in COTA would be amended to remove this exclusion.

The authority to levy a hotel tax would also be extended to single-tier and lower-tier municipalities through proposed amendments to the *Municipal Act, 2001*.

All municipalities that adopt the hotel tax and that have an existing Destination Marketing Fee (DMF) program in place would be required to share their hotel tax revenue with the appropriate not-for-profit tourism organization in an amount that matches the total revenue generated by the existing DMF program. For local municipalities where such a program does not exist, at least 50 per cent of their hotel tax revenue would be shared with the respective Regional Tourism Organization or a not-for-profit tourism organization.

Supporting Renewable Biodiesel in the Coloured Fuel Market

Ontario is committed to addressing climate change, reducing greenhouse gas (GHG) emissions and transitioning to a low-carbon economy. In support of these initiatives, the Province is proposing changes to allow biodiesel, a renewable alternative to fossil fuel, to be more widely available as part of Ontario's tax-exempt coloured fuel program.

Biodiesel may contribute to lower GHG emissions compared to diesel and provide occupational health and safety benefits, since it is less flammable than diesel. In addition, studies have shown that biodiesel used in an occupational setting may have positive benefits for air quality compared to diesel.

Currently, the Province provides certain companies with the authority to colour fuel. These companies are called registered dyers. Coloured fuel purchased from registered dyers is tax-exempt fuel and can only be used for specified purposes defined by the *Fuel Tax Act*.

To support renewable fuels such as biodiesel, the Province is proposing legislative changes to the *Fuel Tax Act* to add a new category of registered dyers who will be permitted to dye biodiesel that has not been blended, mixed or combined with any other type or grade of fuel. This new category of registered dyers would be exempt from the fuel transportation requirements currently imposed on all registered dyers. This would enable more companies to offer coloured biodiesel products while assisting the Province's transition to a low-carbon economy.

Strengthening Ontario's Tax System

The government is taking action to strengthen the integrity of the tax system and ensure everyone pays their fair share of taxes. Building on existing initiatives that include actions to combat the underground economy, the Province will conduct a policy, legislative and administrative review of all taxes, including those shared with the federal government. This review will seek to identify and eliminate loopholes, further strengthen administration of existing tax laws and enhance partnerships with other government entities, such as the Canada Revenue Agency. A review of revenues from government business enterprises will also be undertaken. This integrated approach will help promote greater fairness and efficiency and ensure the ongoing integrity of the tax system.

Income Tax Avoidance

The 2017 federal budget announced a review of tax planning strategies involving private corporations that inappropriately reduce personal taxes of high-income earners, such as through income splitting with family members, holding a passive investment portfolio inside a private corporation, or converting regular business income to capital gains.

As part of its review to enhance revenue integrity, Ontario is devoting additional expert resources to identify and address tax loopholes and sophisticated tax planning schemes. The Province will work closely with the federal government to protect the common tax base and eliminate unfair tax advantages.

Employer Health Tax Avoidance

The *Employer Health Tax Act* includes measures that address tax avoidance structures by incorporating the association rules from the federal *Income Tax Act* (ITA). As a result of the application of the association rules, a group of associated entities is treated as a single enterprise and is required to share the Small Business Deduction (SBD) and the Employer Health Tax (EHT) exemption. This is intended to address tax avoidance through artificial multiplication of relief meant for smaller businesses and employers.

The 2016 federal budget introduced new anti-avoidance measures to prevent multiplication of the SBD through certain complex structures. As part of its commitment to enhance tax fairness, the government proposes to parallel one of these measures by eliminating the EHT exemption for any

employer that is a designated member of a partnership, as defined in the ITA. This change would be effective on a prescribed date no earlier than January 1, 2018, to provide the opportunity for feedback and consultation.

Ontario will further review other methods and structures by which some employers avoid paying EHT, to ensure EHT relief is targeted to smaller employers. The public will have the opportunity to provide feedback on any future changes that may arise as a result of the review.

Technical Measures

Multijurisdictional Tax Filers

The government is proposing amendments to change the way provincial surtax and the Ontario Tax Reduction (OTR) are calculated for Ontario residents who pay tax to another province, and non-residents of Ontario who pay tax to Ontario (referred to as multijurisdictional filers). These changes are intended to ensure consistency between the surtax and OTR treatment for multijurisdictional filers and other filers. Currently, the amount of surtax and OTR for multijurisdictional filers does not properly reflect their total income.

The surtax would be calculated based on the total amount of Ontario tax on taxable income. The total amount of tax payable, including the surtax, would then be prorated based on the percentage of income allocated to Ontario. The OTR amounts would also be prorated based on the percentage of income allocated to the province. These changes would be effective for taxation years ending after December 31, 2016.

Section B: Tobacco

Supporting Smoke-Free Ontario

Ontario has made significant progress on the Smoke-Free Ontario Strategy. However, tobacco-related diseases remain the number one cause of preventable death and disease in Ontario.

To further accelerate Ontario's goal of having the lowest smoking rates in Canada, the Province will be increasing tobacco tax rates by \$10 per carton of 200 cigarettes over three years, bringing Ontario's rates closer to the national average. Tobacco taxes are a proven method of encouraging smoking cessation and prevention, and a critical component to achieving results in tobacco control. This approach will replace the inflation-based tax increases announced in last year's *Budget*.

These changes will begin with an increase to tobacco tax rates from 15.475 cents to 16.475 cents per cigarette or gram of tobacco products other than cigars, effective 12:01 a.m., April 28, 2017. In 2018 and 2019, tobacco taxes will be increased by an additional 2 cents per cigarette or gram of tobacco each year.

Wholesalers of tobacco products that are not collectors of tobacco tax are required to take an inventory of all tobacco products (except cigars) that they hold at the end of day, April 27, 2017, and remit the additional tax on the inventory to the Ministry of Finance.

The government recognizes that tobacco control policies can be undermined by unregulated tobacco sales, and it will be moving forward with additional measures to help address this issue. Please see [Chapter VI, Section A: Transforming Government for Sustainability and Fairness](#) for details on addressing unregulated tobacco.

Section C: Strengthening

Ontario's Property Tax and Assessment System

Strengthening the Governance of the Municipal Property Assessment Corporation

The government continues to improve board governance for the Municipal Property Assessment Corporation (MPAC) to support excellence in the delivery of assessment services as well as strong accountability to stakeholders.

Building on improvements announced in the *2016 Budget*, the government proposes to broaden eligibility for members of the MPAC board of directors by including former municipal officials. Consistent with best practices in board governance, the government would adjust the size of the MPAC board from 15 to 13 members.

Going forward, the government will continue to consult on additional opportunities to improve MPAC board governance.

Property Tax Measures

Modernizing Railway Right-of-Way Property Taxation

The *2016 Ontario Economic Outlook and Fiscal Review* announced that the Province had initiated a review of the property taxation of railway rights-of-way in response to municipal requests.

As part of the review, the Province has held consultations with municipalities and representatives of the railway industry. Based on these consultations, the Province is taking action on three key issues to address concerns related to indexation of rates, variation in rates, and implications for shortline railways.

Table 7.1 Proposed Measures to Modernize Railway Right-of-Way Taxation

Key Issues	Proposed Measures for 2017
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Key Issues	Proposed Measures for 2017
<p>1. Indexation of Rates: Municipalities have expressed concerns that property tax rates on railway rights-of-way have not been updated since the late 1990s.</p>	<p>Beginning in 2017, property tax rates on railway rights-of-way will be updated to reflect the average annual percentage change in taxes on commercial properties. This means that municipal property tax rates will increase by approximately \$6 per acre for 2017.</p>
<p>2. Variation in Rates: Municipalities have also expressed concerns about the significant variation in railway rights-of-way property tax rates across the province, with the lowest rates being approximately one-twentieth of the highest rate.</p>	<p>The Province will begin to address rate inequities by adjusting the lowest property tax rates on railway rights-of-way to a minimum of \$80 per acre in 2017. Currently, the lowest rate is approximately \$35 per acre.</p>
<p>3. Shortline Railways: The railway industry expressed concerns about the impacts of potential property tax increases on shortline railways.</p>	<p>The Province recognizes the challenges faced by shortline railways and will take this concern into account when setting rates.</p>

For 2018 and future years, the government will continue to adjust rates to address these key issues. The Province is committed to modernizing the property taxation of railway rights-of-way and remains open to further stakeholder input.

Encouraging Small-Scale Agri-Food Business on Farms

As part of Ontario's efforts to encourage job growth in the agriculture sector and support rural economies, a review has been undertaken on the property tax treatment of small-scale agricultural processing and commercial activities on farms.

Based on discussions with municipal representatives and agricultural organizations, the government is introducing a legislative framework that would provide municipalities with flexibility to reduce property tax rates for eligible small-scale value-added and commercial activities on farms. Currently, these operations are taxed at industrial or commercial rates. Under the proposed changes, a portion of the assessment attributable to the value-added processing or commercial activity would be eligible to be taxed by the municipality at a reduced rate.

This measure is intended to provide sustainable property tax treatment to farmers who diversify their operations by engaging in small-scale processing or retail activities as a direct extension of their farming business.

Moving Forward with Provincial Land Tax (PLT) Reform

The government remains committed to moving forward with Provincial Land Tax (PLT) reform and establishing a more equitable and modern PLT system. Building on changes announced in the *2015 Budget* and *2016 Ontario Economic Outlook and Fiscal Review*, legislative amendments will be introduced to further support increased equity in taxation and in how services are paid for in the north.

Ensuring the Ongoing Integrity of Education Property Tax Revenue

The *2016 Budget* announced a property tax rate calculation adjustment on education property tax rates that reflects current and historical in-year assessment changes, such as assessment appeal losses. This technical adjustment ensures that municipalities and the Province are able to address any unintended effects of specific in-year property assessment changes, and supports the ongoing integrity of education property tax revenue.

Consistent with the announcement in the *2016 Budget*, the Province will maintain the adjustment to education property tax rates for 2017 to support the ongoing integrity of education property tax revenues, which help to fund Ontario's elementary and secondary schools.

The share of education expenditures funded by property taxes has decreased from nearly 44 per cent in 1998–99 to 27 per cent currently. Going forward, the Province will continue to monitor and review education property taxes to ensure that these taxes make an appropriate contribution to education funding.

Summary of Measures

TABLE 7.2 Tax Measures
(\$ Millions)

	2017– 18	2018– 19	2019– 20
Addressing Tax Avoidance and Improving Efficiency — Employer Health Tax Avoidance	–	3	3
Addressing Tax Avoidance and Improving Efficiency — Paralleling Federal Tax Measures	35	95	85
Other Measures — Lowering Public Transit Costs for Seniors*	(10)	(10)	(10)
Other Measures — Supporting Renewable Biodiesel in the Coloured Fuel Market	–	–	–
Technical Measures — Multijurisdictional Tax Filers	15	15	15
Supporting Smoke-Free Ontario — Tobacco Tax	40	135	215
Total	75	235	305

Table 7.2 Footnotes:

Notes: Numbers indicate increases in government revenue. Numbers may not add due to rounding. “–” indicates a nil amount, a small amount (less than \$1 million), or an amount that cannot be determined.

Fiscal impacts for “Employer Health Tax Avoidance” assume an implementation date of January 1, 2018.

* Measure represents a new government expense.

Technical Amendments

To improve administrative effectiveness and enforcement, maintain the integrity and equity of Ontario’s tax and revenue collection system, and enhance legislative clarity and regulatory flexibility to preserve policy intent, amendments will be proposed to various statutes administered by the Minister of Finance.

In addition, amendments would be proposed to other statutes to improve administrative effectiveness and enforcement, and enhance legislative clarity and regulatory flexibility to preserve policy intent, including:

Alcohol and Gaming Regulation and Public Protection Act, 1996

City of Toronto Act, 2006

Electricity Act, 1998

Family Law Act

Financial Administration Act

Freedom of Information and Protection of Privacy Act

Municipal Act, 2001

Municipal Freedom of Information and Protection of Privacy Act

Nursing Act, 1991

Oil, Gas and Salt Resources Act

Ontario Infrastructure and Lands Corporation Act, 2011

Wine Content and Labelling Act, 2000

Other Legislative Initiatives

Additional proposed legislative initiatives include:

- An amendment to the *Alcohol and Gaming Regulation and Public Protection Act, 1996*, that would remove the provision in the microbrewer definition that prevents a microbrewer from making

beer for a beer manufacturer. Also proposed is a consequential amendment to clarify that beer made by a microbrewer for a beer manufacturer is subject to the beer manufacturer's tax rate.

- New legislation that would recognize the merger of three Ontario accounting bodies, which now operate as Chartered Professional Accountants of Ontario (CPA Ontario). The proposed legislation would provide the governance and oversight structure for the operation of CPA Ontario and would repeal the statutes that governed the three previous accounting bodies: the *Certified General Accountants Act, 2010*, the *Certified Management Accountants Act, 2010*, and the *Chartered Accountants Act, 2010*. Consequential amendments to various statutes would also be made.
- Amendments to update securities laws which would provide a civil cause of action for whistleblowers where a reprisal is taken against them contrary to securities or commodity futures law; protect Ontario Securities Commission (OSC) commissioners, management and staff from being compelled to testify or provide evidence in civil proceedings; authorize regulation of the operations of information processors; provide authority to require applications to the OSC under the Ontario *Business Corporations Act* to be filed electronically; ensure appropriate regulation of entities carrying on clearing agency functions; and permit cease trade orders and provide for the mandatory recognition of clearing agencies under the *Commodity Futures Act*. The government is also considering legislative changes to protect the stability of the financial system, including expanding information collection powers for the purpose of monitoring systemic risk.
- Amendments to the *Corporations Act* to enable Ontario's farm mutual insurance network's reinsurance company to expand and diversify its operations. The amendments, if passed, would allow the Farm Mutual Reinsurance Plan to insure individuals and businesses in addition to its reinsurance business.
- Amendments to the *Crown Employees Collective Bargaining Act, 1993* to reform the Grievance Settlement Board (GSB) by removing vice-chairs from the Order-in-Council appointment process and replacing that appointment process with a process for the establishment of a roster of mediator-arbitrators to hear matters before the GSB; providing for the remuneration of the mediator-arbitrators on the roster at rates to be determined by the Crown and trade unions; and other related amendments and other amendments to reflect the current role and operational practices of the GSB.
- Amendments to the *Electricity Act, 1998* regarding the application of payments in lieu of federal and provincial tax against a taxpayer's transfer tax liability.
- Amendments to the *Financial Administration Act* to improve the administration of section 28 of the Act, including providing for potential changes to the application of the section.
- Amendments to the *Forest Fires Prevention Act* to better enable the recovery of costs of fires from responsible parties, including railway companies. Amendments would also increase penalties for offences.
- An amendment to the *Fuel Tax Act* to enable the Minister to prescribe alternative conditions that are required to be met by registered dyer applicants.
- Amendments to the *Investment Management Corporation of Ontario Act, 2015* to provide increased flexibility for a new vote allocation structure for members of the Investment

Management Corporation of Ontario and adjust term limits for its directors.

- Amendments to the *Land Transfer Tax Act* to restrict the ability of qualifying purchasers to claim their spouse's interest for the first-time homebuyers refund if the spouse is not a Canadian citizen or permanent resident of Canada.
- Amendments to the *Land Transfer Tax Act* to repeal all provisions relating to the Ontario Home Ownership Savings Plan (OHOSP). This would involve the transfer of the "offence" provision currently under the OHOSP provision to the first-time homebuyers provision. The fine amount under the "offence" provision would also be increased from \$2,000 to \$4,000.
- Amendments to the *Land Transfer Tax Act* to introduce a provision to deem the amount of a refund or rebate wrongly obtained to be tax payable on the date the refund or rebate was paid to the taxpayer.
- Amendments to the *Ministry of Natural Resources Act* to replace the adjudicative body currently known as the Mining and Lands Commissioner, with the renamed Mining and Lands Tribunal, and consequential amendments to other Acts.
- Amendments to the *Ministry of Revenue Act* to provide consistency in administration, improve efficiency and help increase recovery of money owing to Ontario. Where debtors fail to pay or make arrangements to repay their non-tax debts, the amendments, if passed, would enable the Province to use enhanced collection tools, such as garnishments, warrants and liens, against debts, including debts that existed prior to the amendments coming into force.
- Amendments to the *Oil, Gas and Salt Resources Act* to enable prescribed compressed air energy storage projects and other prescribed substances that would be injected, stored or withdrawn into underground formations to be regulated under the Act. Proposed amendments would also modernize the liability protection offered to Crown employees and agents of the Crown.
- Amendments to the *Ontario Infrastructure and Lands Corporation Act, 2011* to enable Infrastructure Ontario to continue existing loan agreements with Local Distribution Companies (LDCs) that remain at least 90 per cent municipally owned following an amalgamation with other LDCs.
- Amendments to the *Pension Benefits Act* to better facilitate mergers for those public sector employers who would like to merge their single-employer pension plans with an existing jointly sponsored pension plan.
- Amendments to the *Pension Benefits Act* relating to U.S. Steel Canada's funding obligations under the pension plans it sponsors and to the Pension Benefits Guarantee Fund. The purpose of the amendments would be to facilitate the restructuring of U.S. Steel Canada under the *Companies' Creditors Arrangement Act* (Canada) to ensure the best possible outcome for pension members and other stakeholders under the circumstances.
- Amendments to the *Registered Insurance Brokers Act* to ensure that it meets current standards and adequately protects Ontario consumers, including requiring disciplinary hearings to be open to the public; allowing for the continuation of disciplinary processes when a member resigns; and strengthening enforcement, including enabling the Registered Insurance Brokers of Ontario to impose administrative penalties.

- An amendment to clarify the ability of a divorced spouse to qualify for financial support from a former spouse's estate under the *Succession Law Reform Act* following recent amendments made by the *All Families Are Equal Act (Parentage and Related Registrations Statute Law Amendment)*, 2016.
- An amendment to the *Taxation Act, 2007* to parallel changes made to the federal small business deduction that would reduce a company's Ontario business limit by the same amount the federal business limit is reduced. This would apply if the company assigned any portion of its business limit to another company under certain circumstances.
- An amendment to the *Taxation Act, 2007* to list excluded productions for the Ontario Computer Animation and Special Effects Tax Credit directly in legislation, to maintain the Province's long-standing treatment of talk shows as ineligible for the provincial film and television tax credits, as announced on January 11, 2017.
- Amendments to the *Workplace Safety and Insurance Act, 1997* with respect to work-related chronic mental stress, worker benefits and indexation, and Workplace Safety and Insurance Board operational compliance and policy-making authority.

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- Last Modified: Thursday, May 18, 2017