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Insight into the

ONTARIO BUDGET of March 23, 2023

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Insight into the Ontario Budget of March 23, 2023

On March 23, 2023, the Ontario government presented its 2023 Budget – *Building a Strong Ontario*. The budgetary deficit for 2022-2023 is projected at $2.2 billion, decreasing to $1.3 billion in 2023-2024, before returning to surpluses of $0.2 billion in 2024-2025 and $4.4 billion in 2025-2026.

Corporate and Business Tax Measures

Corporate Tax Rates

No changes to corporate tax rates were announced in the Budget, leaving corporate tax rates for 2023 as follows:

2023 Corporate Income Tax Rates				
	Active Business Income			
	General	Small Business (CCPC)	Business Limit	Investment Income (CCPC)
Ontario	11.5%	3.2%	$500,000	11.5%
Combined Federal/Ontario	26.5%	12.2%	$500,000	50.17%

Ontario Made Manufacturing Investment Tax Credit

The Budget proposes a new refundable corporate tax credit for investments in buildings, machinery and equipment used in manufacturing and processing. The Ontario Made Manufacturing Investment Tax Credit is a 10% credit available to Canadian-controlled private corporations (CCPC's) that have a permanent establishment in Ontario and that make qualifying investments in certain capital property included in Class 1 or Class 53 for capital cost allowance (CCA) purposes.

Qualifying investments in Class 1 include expenditures for the construction, renovation or acquisition of buildings used for manufacturing or processing in Ontario that become available for use on or after March 23, 2023. To qualify for the credit, 90% of the building's floor space must be used at the end of the corporation's taxation year for manufacturing or processing in Ontario and the building must be eligible for the additional 6% CCA permitted under the Income Tax Act.

Qualifying investments in Class 53 include expenditures for machinery and equipment used in the manufacturing or processing of goods in Ontario. The machinery and equipment must be acquired and become available for use on or after March 23, 2023 and before 2026. After 2025, qualifying investments will include expenditures for machinery and equipment used in the manufacturing or processing of goods for sale or lease that are included in Class 43(a) for CCA purposes.

The credit will be available for qualifying expenditures of up to $20 million in a taxation year, for a maximum credit of up to $2 million per year. The $20 million expenditure limit will be shared among an associated group of corporations.

The credit will be reviewed every three years to assess its effectiveness, compliance burden and administrative costs.

Ontario Small Business Deduction

CCPC's benefit from the small business deduction (SBD), a reduction in the Ontario corporate tax rate on active business income from the 11.5% general rate to 3.2%. The SBD is limited to a $500,000 "business limit" on active business income for a year (shared between associated corporations).

In its *2022 Ontario Economic Outlook and Fiscal Review*, Ontario proposed to extend the phase-out range for the business limit to between $10 million - $50 million of taxable capital (from the current range of $10 million - $15 million of taxable capital) for corporations or associated groups. The extension of this threshold results in the business limit being reduced by $1 for every $80 of taxable capital in excess of $10 million (as compared to the current reduction by $1 for every $10 of taxable capital in excess of $10 million). As a result, the reduction in the business limit would be more gradual and only fully eliminated where taxable capital exceeds $50 million (as opposed to the current $15 million threshold).

Legislative amendments to implement this change have now been introduced to implement this change effective for taxation years beginning after April 6, 2022, mirroring Federal changes that were announced in 2022.

Modernizing Ontario's Film and Television Credits

The Budget confirms that it will extend film and television tax credit eligibility to professional film and television productions made available exclusively online, as previously announced.

The Budget also confirms that the government will explore opportunities to simplify the Ontario Computer Animation and Special Effects Tax Credit and the Ontario Film and Television Tax Credit , in an effort to reduce administrative complexity and ensuring their effectiveness, as previously announced.

Personal Tax Measures

Personal Tax Rates

No changes to personal tax rates were announced in the Budget. As a result, personal tax rates and brackets for 2023 will be as follows:

Top Combined Ontario and Federal Personal Income Tax Rates		
2023 Taxable Income	2023 Ontario Tax Rates	Combined Federal/Ontario Rates
First $49,231	5.05%	20.05%
Over $49,231 up to $98,463	9.15%	33.89%
Over $98,463 up to $150,000	11.16%	43.41%
Over $150,000 up to $220,000	12.16%	51.97%
Over $220,000	13.16%	53.53%

Other Measures

Harmonizing Wine Tax

The Budget proposes to set a single 12% basic tax rate on wine and wine coolers sold in off-site winery retail stores, effective July 1, 2023.

Reviewing Ontario's Tax System

The Budget announces that the government will review the province's tax system, with a focus on modernizing administration tools, improving competitiveness and the effectiveness of tax relief and supports.