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94 Cumberland Street, Suite 200, Toronto, Ontario M5R 1A3
Telephone: (416) 961-5612 Fax: (416) 961-6158
e-mail: valuators@marmerpenner.com

Marmer Penner Newsletter

Edited by Steve Z. Ranot, CA, CBV, CFE and Michael S. Penner, BBA, CA, CBV, ASA, CFE

2000 Ontario Budget

The proposals made by Finance Minister Ernie Eves in the 2000 Ontario Budget will have significant ramifications for all Ontario taxpayers. Family law practitioners should be aware of the impact these changes may have on their clients.

Until now, Ontario did not have its own personal income tax system. Provincial taxes were calculated as a percentage of basic federal tax. Eves has now proposed a "made for Ontario" tax system where Ontario tax rates will apply to a separately calculated Ontario income figure. Examples where Ontario income may differ from income calculated for federal income tax purposes include taxable capital gains. The budget indicated that Ontario will reduce its capital gains inclusion rate to 50% by 2004, whereas for federal purposes, the inclusion rate is still pegged at 66 2/3%. A similar reduction is Ontario's proposal for the inclusion rate on employee stock option benefits.

For 2000, income tax rates continue their downward trend for income below $60,009. There is no change to the marginal tax rate for income above this threshold.

The most significant tax savings will be realized by corporations carrying on business or earning investment income in Ontario. The general corporate income tax rate drops from 15.5% to 14.5% in 2000 and down to 14% in 2001. For Canadian controlled private corporations, the news is even better. Ontario had previously announced its intention to reduce the tax rate on active business income to 4.75% by 2006. Now it is accelerating this reduction, targeting a 4% rate by 2005. Currently, the Ontario small business deduction begins to be phased out when corporate income exceeds $200,000 and is fully phased out at $500,000. These limits will be doubled to

$400,000 and $1,000,000, respectively.

The corporate tax rate changes will now impact a new group who previously were prohibited from incorporating. The province plans to extend the right to incorporate to all regulated professionals. Professionals will be able to enjoy many of the tax advantages of incorporation. These include the ability to leave income in the corporation where it is taxed at corporate tax rates which may be significantly lower than personal income tax rates. Furthermore, the sale of an incorporated professional practice may permit the vendor to utilize the capital gains exemption with respect to shares of a qualified small business corporation. It should be noted that non-members of professional associations will not be permitted to own shares in a professional corporation. Accordingly, the incorporation of a professional practice will not allow a professional to income split by paying dividends to family members if those family members do not belong to the same professional association.