Tax Highlights of the Ontario and Federal 2018 Fall Economic updates

During November 2018, there were Economic updates from both the Ontario Minister of Finance and the Federal Minister of Finance. This article will summarize the tax highlights of each economic update.

Summary of the Tax Highlights of the Ontario Economic Updates

Personal Tax Updates:

1. The government announced that the province would not adapt the proposed surtax and the adjusted tax brackets which had been included in the previous government's March 2018 Ontario Budget.

2. The government announced that there would be a tax credit for low-income individuals and families. The non-refundable credit will start to apply in the 2019 tax year. The credit will be calculated as the lesser of $850 and 5.05% of employment income. The result is then reduced by 10% of the greater of the adjusted individual net income exceeding $30,000 and for families the adjusted family net income exceeding $60,000 (family's adjusted net income would include the taxpayer's net income and the spouse or common-law partner's net income).

Business Tax Updates:

1. The government announced that the province would not act on several items that were proposed in the March 2018 Budget that was tabled by the previous government. This includes the rent control in new buildings proposal, the Ontario cap and trade program for carbon tax, the Green Ontario Fund that was designed to provide rebates to help with smart thermostats and other items that would reduce one's carbon footprint and the enhancements to the research and development credits.

2. It was also stated that Ontario would not parallel the 2018 federal budget change that would phase out the small business limit for Canadian controlled private corporations that earn passive investment income between $50,000 and $150,000 in a taxation year.

3. There would be an increase to the Employer Health Tax exemption. The increase from $450,000 to $490,000 would occur on January 1, 2019 and this measure should reduce the Employer Health taxes for businesses by up to $780 annually.

Summary of the Tax Highlights of the Federal Economic Updates

Personal Tax Updates:

1. There was an extension to the ability to claim the mineral exploration tax credit for another five years (April 1, 2024).

Business Tax Updates:

1. The government introduced the Accelerated Investment Incentive (AII) which will provide an increased first year claim of the capital cost allowance (CCA) for eligible property. The eligible property will need to be acquired after November 20, 2018 and be available for use before 2028. The AII will apply to all capital property that is subject to the CCA rules. There are a few exceptions which includes property that would be Manufacturing and Processing equipment and Specified Clean Energy Equipment, property previously owned by the taxpayer or a non-arm's length person, and property transferred to the taxpayer on a tax-deferred basis. The addition of AII property prior to 2024 will allow an enhanced first year CCA deduction that is 150% times the standard CCA rate. For example, if a computer was purchased after November 20, 2018 and available for use prior to 2024 the addition would be to CCA class 50. CCA class 50 normally has a rate of 55% subject to the half year rule for an effective CCA deduction of 25% of the addition in the first year however, as this addition would be AII the CCA rate in the first year would now be 82.5%. The CCA in the following years would continue at the normal CCA rate for that class which would be 55%.

2. Eligible Manufacturing and Processing equipment and Specified Clean Energy equipment also received an enhanced CCA deduction which is available in the first year in which such equipment becomes available for use if, the property is available for use before 2024 then 100% CCA deduction can be taken, if the property becomes available for use after 2023 and before 2028 there is a gradual phased out of the enhance CCA rate. The half year rule that normally applies to new additions in the first year has been suspended to allow the enhanced deduction.

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