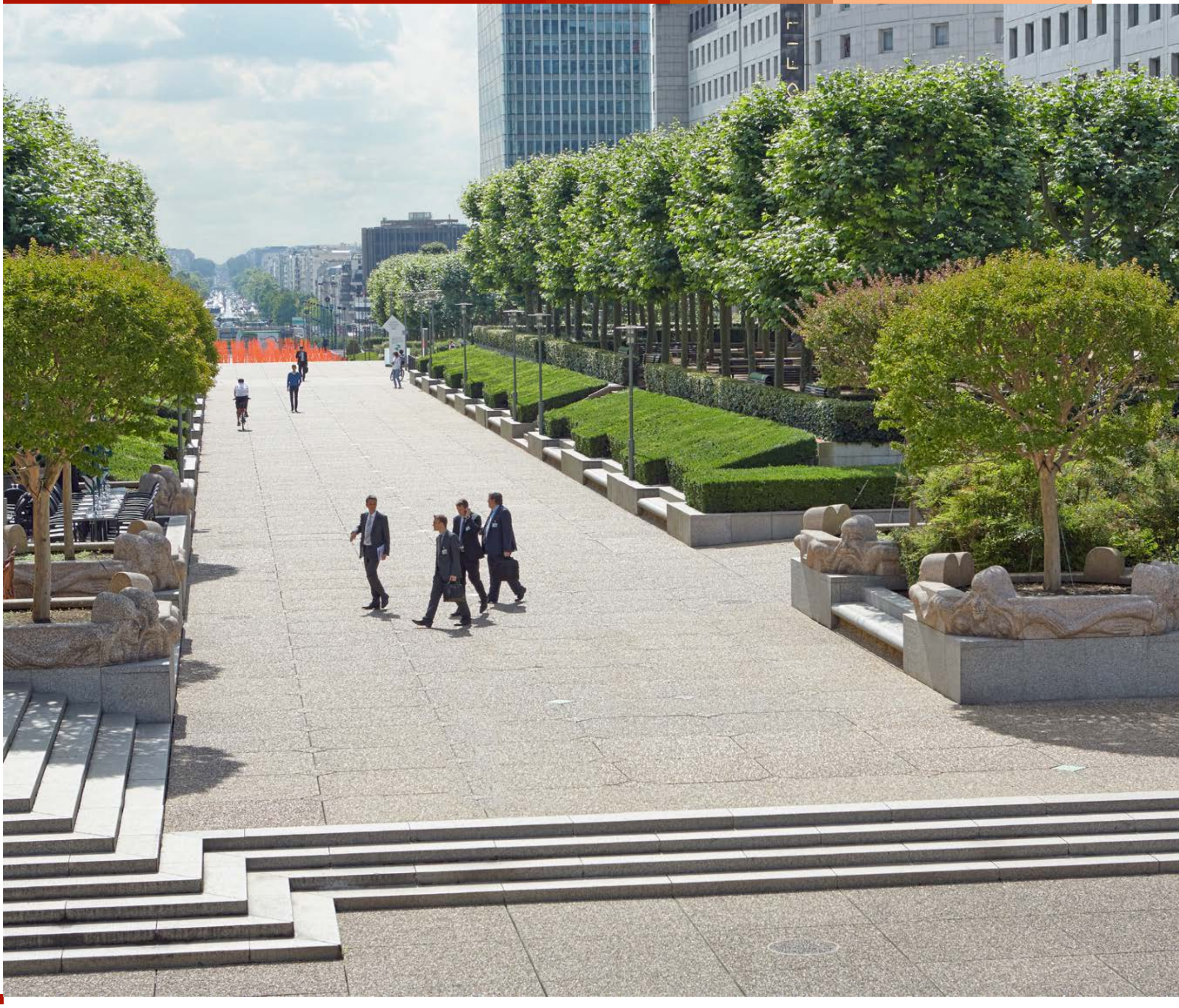
www.pwc.com/ca/tax

Taxation and tax incentives in Ontario

2015



pwc

Value, on your terms

We focus on four areas: assurance, tax, consulting and deals services. But we don't think off-the-shelf products and services are always the way to go. How we use our knowledge and experience depends on what you want to achieve.

PwC Canada has more than 5,800 partners and staff in offices across the country. Whether you're one of our clients or one of our team members, we're focused on building deeper relationships and creating value in everything we do.

So we'll start by getting to know you. You do the talking, we'll do the listening. What you tell us will shape how we use our network of 195,000 people in 157 countries around the world—and their connections, contacts and expertise—to help you create the value you're looking for.

See **www.pwc.com/ca** for more information.

Taxation and tax incentives in Ontario

Your essential guide

A message from PricewaterhouseCoopers (PwC)

PwC's second edition of *Taxation and tax incentives in Ontario: Your essential guide* is an indispensable reference tool for any person or entity that does business in Ontario or is considering doing business in Ontario. It will also help if you live in Ontario or might move here.

This guide will save you time and effort by providing personal and corporate tax information in one convenient document. For example, it can help you:

- understand the alternative structures for carrying on business in Canada – and the registration requirements for non-residents who do so
- discover that Ontario's combined general corporate income tax rate for 2015 is lower than that of any US state, Japan, France and Germany
- learn about the Canadian and Ontario tax rates and incentives that apply to your company – including tax credits for taxpayers that carry on scientific research and experimental developments or are in the entertainment and media industry (or both!) – and who to call to help you access these incentives
- identify the taxes that may be imposed on your business, such as employer payroll tax, harmonized sales tax rates and land transfer tax
- become familiar with Canada's import and export rules
- gain an overview of the rules governing personal taxes in Ontario and some of the main tax incentives available to individuals

The edition is current to September 1, 2015. Important post-publication changes can be found on our website at **www.pwc.com/ca/taxinsights**.

Of course, tax information is most effective when used in tandem with professional advice. For further help, please contact your PwC tax adviser or any of the individuals on page 24.

Contents

1. Doing business in Canada

Carrying on a business

Most foreign corporations carry on a business in Canada in one of three ways:

- without a formal presence in Canada
- through a branch, or
- through a Canadian subsidiary corporation

In certain circumstances, foreign investors can also use partnerships, joint ventures or trusts. Each has different implications for tax obligations and legal liability. For example, a partnership, unlike a corporation, is not a separate legal entity for income tax purposes and is not subject to income tax. Income is determined at the partnership level and is allocated among the partners, which then include their respective allocations in taxable income.

No formal Canadian presence

A foreign corporation may operate without establishing branch operations or a formal legal entity in Canada, instead selling to the Canadian market directly from the foreign jurisdiction. Non-resident representatives may visit Canada temporarily to sell products and to service customers. The representatives' activities in Canada should be monitored because they may trigger a taxable presence in Canada for the foreign corporation. This method of operating is impractical for any substantial level of business. In many cases, a treaty-based corporate income tax return must be filed, because the threshold for carrying on a business in Canada is relatively low.

Non-resident corporations from countries that do not have a tax treaty with Canada may be subject to Canadian tax. The corporation may be subject to withholding and filing obligations in respect of the non-resident representatives, and personal tax filings may also be required.

Branch operations

A foreign corporation may carry on business operations in Canada through a branch or other form of permanent establishment, but without incorporating a Canadian subsidiary corporation. These Canadian branch operations will be subject to Canadian tax and corporate laws, and to certain licensing and registration requirements. The profits of a Canadian branch will be subject to taxation in Canada and to Canadian tax filing obligations.

Corporate subsidiary

A foreign corporation may establish a legally separate Canadian subsidiary corporation to carry on operations in Canada. This will give the Canadian operations more independence from a legal, commercial and contractual standpoint. It also provides greater certainty regarding the amount of income that will be subject to tax in Canada.

Registering a business

Federal and provincial (and territorial) governments in Canada have rules requiring foreign corporations to acquire a licence to carry on a business or to apply for registration. These requirements are similar to those for domestic businesses and are designed to create a record or account of the corporation with the relevant government authorities, to facilitate compliance with domestic rules and regulations. For example, most vendors must register for the federal Goods and Services Tax (GST) if the vendor's taxable sales in Canada will exceed $30,000 per annum.

Obtaining registration forms and other documents

Federal and provincial registration forms and other government documents pertaining to the establishment of a business in Ontario can be found at the Canada Business Network website (see Ontario Service Centre).

Investment Canada Act

Significant investments in Canada by non-residents are reviewed under the *Investment Canada Act* to ensure the investment will contribute to Canada's economic growth and employment opportunities.

Notification of new foreign investment

Under the *Investment Canada Act*, every time a foreign investor establishes a new Canadian business or acquires control of a Canadian business, Industry Canada must be notified within 30 days of the transaction. Some exemptions are available.

Approval of new foreign investment

Starting April 24, 2015, the approval threshold is $600 million in enterprise value (revised from $369 million in asset value) for investments to directly acquire control of a Canadian business by investors that are from World Trade Organization (WTO) member nations. This threshold will increase in stages to $1 billion by April 24, 2019, and will be indexed starting January 1, 2021. The revised thresholds do not apply to direct acquisitions by state-owned enterprises of WTO members, for which the approval threshold remains $369 million in asset value (indexed annually).

Generally, indirect acquisitions involving a WTO member do not have to be approved, but are subject to notification. If the investors are not from WTO members, the approval thresholds are $5 million in asset value for direct investments and $50 million in asset value for indirect investments.

The Ministry of Canadian Heritage must be notified of investments in a "cultural business" and may require a review regardless of the size of the investment.

For more information about the *Investment Canada Act*, including guidelines and access to forms, visit its website.

Business environment

Canada was ranked fourth (first of the G7 countries) in an independent ranking that forecasts the quality and attractiveness of the business environment in 82 countries for 2014 to 2018. The ten criteria cover the political environment, macroeconomic environment, market opportunities, policy towards free enterprise and competition, policy towards foreign investment, foreign trade and exchange controls, tax regime, financing, labour market and infrastructure. Chart 1 indicates the ranks of the G7 countries.

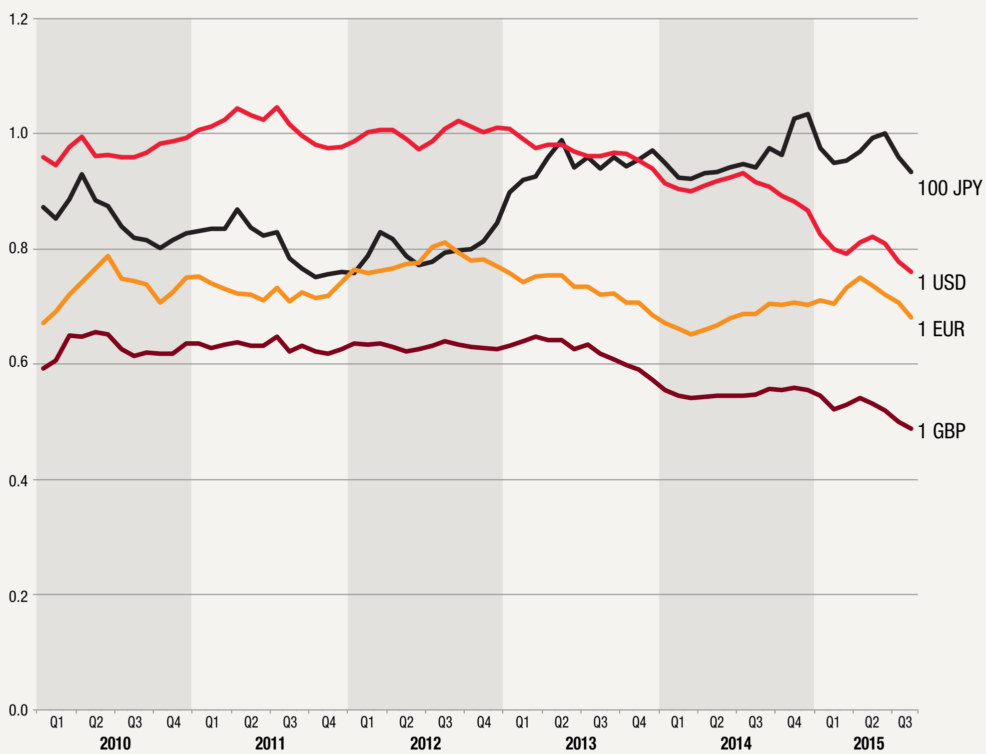
Exchange rate

Chart 2 shows how many units of other currencies a Canadian dollar could buy. For example, when the Canadian dollar bought half a British pound, 0.5 is indicated and when the Canadian dollar bought 100 Japanese yen, 1.0 is indicated. Since 2010, the value of the Canadian dollar has fluctuated against the four currencies shown in Chart 2, but most significantly against the US dollar and the Japanese yen.

Chart 1: Business environment ranking

Source: The Economist Intelligence Unit, Business Environment Rankings 2014

Chart 2: Canadian dollar exchange rate (2010 to September 1, 2015)



Source: Bank of Canada website, September 2015

2. The Canadian tax system

Levying taxes in Canada

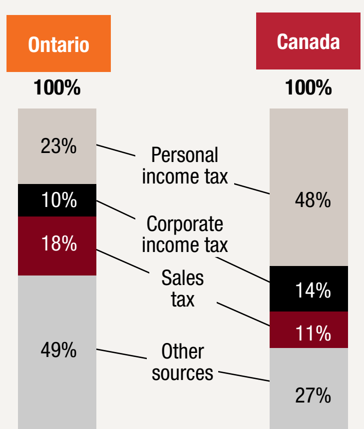
Three levels of government in Canada can levy taxes:

- the federal government
- the ten provincial and three territorial governments
- municipal governments

While the federal government has unrestricted powers to levy taxes, provincial and territorial governments are limited to direct taxation within their boundaries. What constitutes a "direct" tax is defined relatively broadly. Income and property taxes are viewed as direct taxes. Sales and commodity taxes are also treated as direct taxes if the tax is expressly levied on the final users, even though it is collected and remitted by intermediaries or persons making the sale. Indirect taxes are those that are levied on one taxpayer with the expectation that the taxpayer will recoup the cost from someone else.

Both the federal and provincial/territorial levels of government levy personal and corporate income, payroll, sales and other commodity taxes. Customs duties are the major form of levy that is imposed only by the federal government, under its exclusive powers to regulate international trade and commerce. Chart 3 compares 2014 government revenue sources for Ontario and Canada.

Chart 3: Sources of government revenue, 2014 fiscal year



Sources: Ontario – Ministry of Finance Public Accounts of Ontario 2013–2014
Canada – Annual Financial Report of the Government of Canada 2013–2014

To reduce the level of complexity and compliance costs that could otherwise arise from the overlapping tax jurisdiction, the federal and most provincial/territorial governments have entered into agreements to collect taxes jointly. As a result, corporate and personal income tax bases for federal and provincial/territorial taxes are largely harmonized.

Municipal governments are legal creations of provincial or territorial governments and are restricted to specific forms of direct taxation. They raise revenues primarily from property taxes on households and businesses, and from user fees. As well, they receive transfer payments from the provincial and territorial governments.

Collecting taxes in Canada

To simplify compliance, most provinces and territories, including Ontario, have entered into tax collection agreements with the federal government, which collects certain provincial and territorial taxes on behalf of these jurisdictions.

The Canada Revenue Agency (CRA) is the federal agency responsible for collecting all federal taxes and excise duties. It also collects:

- personal income taxes in all provinces and territories, except Quebec
- corporate income taxes in all provinces and territories, except Alberta and Quebec
- the provincial portion of the Harmonized Sales Tax, a joint federal-provincial value-added tax that applies in New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario and Prince Edward Island[1]

Municipal taxes are collected by the various municipal governments.

Further information on tax collection in Ontario and Canada are available from the Ontario Ministry of Finance and CRA websites, or by contacting:

Ontario Ministry of Finance
Tel: 905 433 6000 (outside North America)
Toll-free: 866 ONT-TAXS (866 668 8297)
TTY: 800 263 7776
Fax: 866 888 3850

Canada Revenue Agency
Tel: 613 940 8497 (non-resident corporations)
Tel: 800 959 5525 (businesses and self-employed individuals)
Fax: 613 952 3845

1. Although Quebec has largely harmonized its sales tax, for the most part the CRA neither collects nor administers it. However, the CRA administers the tax for selected listed financial institutions and specified institutions.

3. Corporate income tax

Federal and Ontario corporate income taxes

All corporations carrying on business through a permanent establishment in Ontario are subject to both federal and Ontario corporate income taxes.

The federal general corporate income tax rate is 15%. A reduced federal income tax rate applies to certain small business corporations, referred to as Canadian-Controlled Private Corporations (CCPCs). A corporation is a CCPC if it is not controlled directly or in fact by non-residents, public corporations or a combination of these. CCPCs pay federal tax at a rate of 11% on the first $500,000 of active business income earned in Canada, with the federal general rate applying to income exceeding $500,000. This threshold is shared by associated CCPCs (generally, those subject to common control). The federal small business tax rate will decline from 11% to 10.5% on January 1, 2016, 10% on January 1, 2017, 9.5% on January 1, 2018, and 9% on January 1, 2019.

Ontario's general corporate income tax rate is frozen at 11.5% until Ontario returns to a balanced budget (scheduled for 2017-2018). The rate was to have dropped to 11% on July 1, 2012, and to 10% on July 1, 2013. Ontario applies a reduced tax rate of 10% on income from manufacturing and processing (M&P), mining, farming, fishing, and logging operations. The first $500,000 of a CCPC's active business income earned in Canada is subject to Ontario's 4.5% small business tax rate.

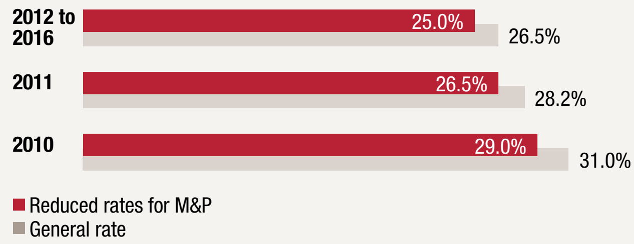
Table 1 – 2015 Combined federal and Ontario corporate income tax rates (%) (December 31, 2015 year ends)

	General	M&P	CCPCs[1] Active business income to $500,000
Federal rate	15.00	15.00	11.00
Ontario rate	11.50	10.00	4.50
Combined rate	**26.50**	**25.00**	**15.50**

Sources: Federal and Ontario income tax legislation

1. Higher rates may apply, depending on the taxable capital and taxable income of the associated group.

Chart 4: Combined federal and Ontario corporate income tax rates (2010 to 2016)



Sources: Federal and Ontario income tax legislation

Chart 5 on the following page shows 2015 combined federal/provincial and US federal/state corporate income tax rates, as well as marginal effective tax rates on business investment.

An important feature of Canada's corporate income tax system is that, for both federal and provincial/territorial income tax purposes, each company within a corporate group is taxed separately. This means that consolidated income tax returns are not permitted. In 2013, the federal government announced that it had completed its review on moving to a formal system of corporate group taxation and it determined this was not a priority. However, the federal government continues to work with the provinces and territories to address their concerns about loss utilization.

Ontario tax harmonization

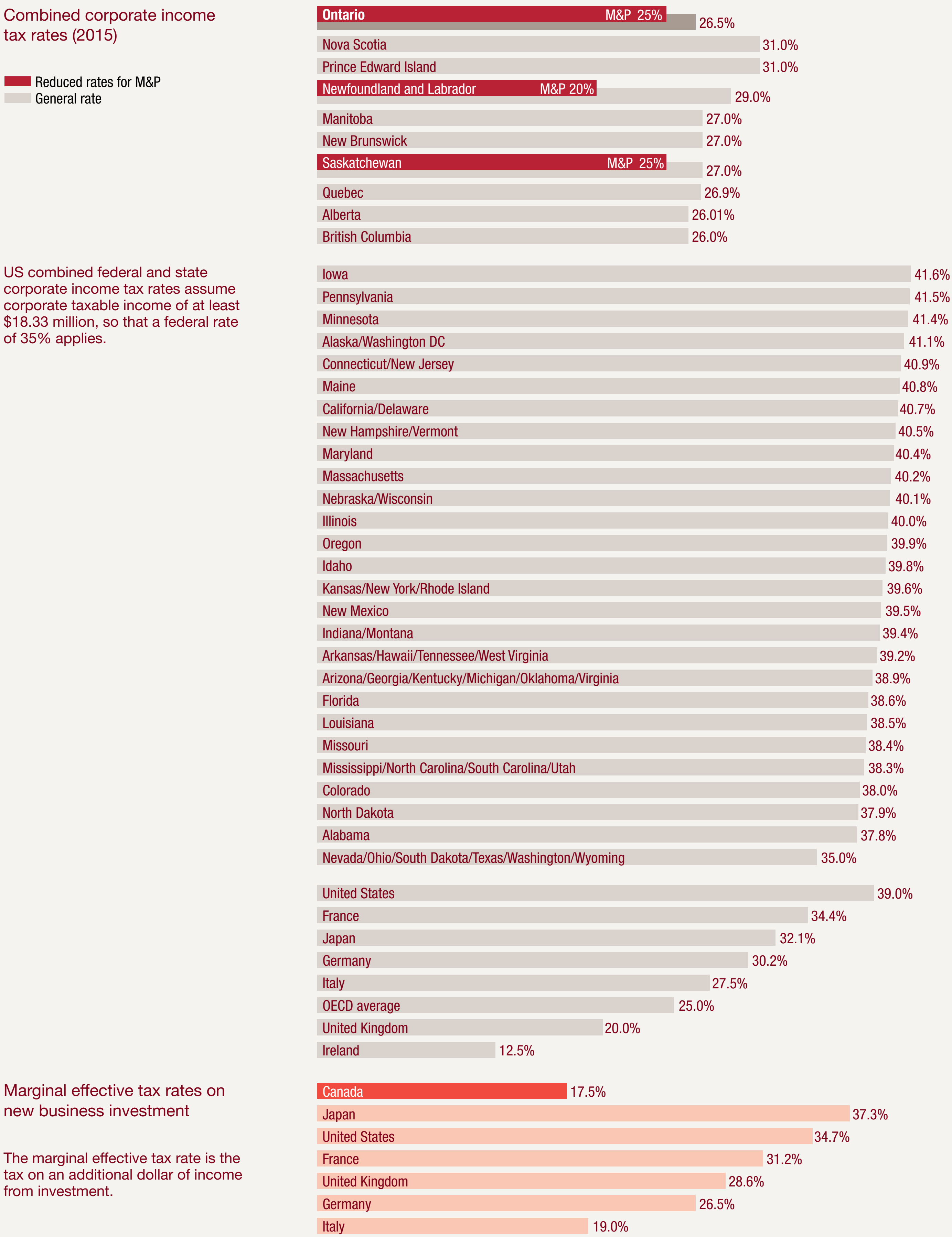
The Ontario corporate income tax base is harmonized with the federal corporate income tax base. As a result, the CRA administers Ontario's corporate income tax, capital tax, corporate minimum tax and special additional tax on life insurers. Only Alberta and Quebec do not have tax collection agreements with the federal government, so companies there do not enjoy the benefits of tax harmonization.

Income allocation

Federal corporate income tax applies to the worldwide income of a Canadian corporation. Provincial and territorial corporate income tax applies only to the income of a Canadian corporation earned from permanent establishments within that province or territory. A corporation's taxable income is allocated among the various jurisdictions in which it has permanent establishments, based on the average of the percentage of wages and salaries incurred in the jurisdiction and the percentage of gross revenue earned in the jurisdiction. A corporation would allocate its income to Ontario using the following formula:

$$\text{Proportion of income allocated to Ontario} = \left(\frac{\text{Salaries and wages paid in Ontario}}{\text{Total salaries and wages paid}} + \frac{\text{Gross revenue earned in Ontario}}{\text{Total gross revenue earned}}\right) \div 2$$

Chart 5: Corporate tax rates – Canada, United States and other jurisdictions



Sources: Federal provincial and US state income tax legislation. Table II.1 "Corporate income tax rates." OECD Tax Database and Government of Canada "Invest in Canada – Think Canada" July 2015.

Corporate Minimum Tax

Ontario corporations that exceed certain thresholds may be liable for Ontario's Corporate Minimum Tax (CMT), which is levied on adjusted book income (i.e. financial statement income, with certain adjustments) less unused CMT losses from the previous twenty years. The broad CMT base ensures that large, profitable corporations pay a minimum level of tax. CMT is payable only to the extent that it exceeds the regular Ontario income tax liability. CMT paid in one year can be carried forward twenty years, and can be deducted from regular Ontario income tax in those years to the extent that the regular Ontario income tax exceeds the CMT.

The CMT rate is 2.7%. The thresholds for CMT to apply follow:

Table 2 – Corporate Minimum Tax

	Threshold
Total assets[1]	≥ \$50 million
	and
Annual gross revenue[1]	≥ \$100 million

Source: Ontario income tax legislation

1. Thresholds apply on an associated basis.

Tax credits and incentives

Incentives offered by Ontario help make it an internationally competitive jurisdiction in which to do business. In addition to providing lower corporate income tax rates for small business and M&P operations, Ontario offers numerous tax credits and incentives to encourage investment in specific activities.

The tax credits generally can be used to reduce income tax. Several are also refundable, which means that they result in a payment from the government if a corporation does not have any taxes to pay, or if the credits exceed the tax otherwise payable. Others are non-refundable (i.e. the credits may be claimed only to the extent the taxpayer has taxes otherwise payable) and in some cases can be carried forward and used to reduce income tax in future years. Highlights of various tax incentive programs are provided below.

Scientific research and experimental development tax incentives

To encourage scientific research and experimental development (SR&ED) in the province, Ontario offers numerous incentives. Ontario's SR&ED incentives are in addition to the federal incentives. The federal and Ontario incentives make the after-tax cost of SR&ED in Ontario lower than in many other jurisdictions, including the United States.

Ontario's incentives apply to current SR&ED expenditures, including wages, materials, overhead and consulting fees. In comparison, the US research tax credit provides a tax incentive only for increases to research expenditures over certain base levels.

Ontario's SR&ED incentives are taxed as government assistance.

Expenditure write-off

The immediate 100% write-off of all current SR&ED expenditures is permitted for both federal and Ontario purposes. Expenditures that cannot be deducted in the current year can be carried forward indefinitely.

Ontario Business Research Institute Tax Credit

The Ontario Business Research Institute Tax Credit (OBRITC) is a 20% refundable tax credit for SR&ED expenditures incurred by a permanent establishment in Ontario through contracts with eligible Ontario research institutes, such as universities, colleges, hospital research institutes and other non-profit research organizations. The annual maximum expenditure limit is \$20 million, resulting in a maximum annual tax credit of \$4 million for an associated group.

Ontario Innovation Tax Credit

The Ontario Innovation Tax Credit (OITC) is a 10% refundable tax credit on up to \$3 million of qualifying SR&ED expenditures of an associated group and is subject to phase-out limits (see Table 3) that are similar to the federal rules (see Table 4).

Table 3 – OITC expenditure limits

Phase-out range	Taxable income[1]	\$500,000 to \$800,000
	Taxable capital[1]	\$25 million to \$50 million

Source: Ontario income tax legislation

1. Thresholds are in respect of the previous year, on a worldwide associated basis.

Ontario Research and Development Tax Credit

The Ontario Research and Development Tax Credit (ORDTC) is a 4.5% non-refundable tax credit on qualifying SR&ED expenditures incurred in Ontario that qualify for the federal Investment Tax Credit (ITC) (see below). Unused credits can be carried back three years or forward twenty.

A corporation can renounce all or part of its entitlement to the ORDTC. It might do so if it is unable to use the credit and wants to avoid treatment of the credit as government assistance for federal ITC entitlement.

Federal Investment Tax Credit

The federal government provides a non-refundable ITC equal to 15% of qualifying SR&ED expenditures. ITCs that cannot be applied against corporate income taxes payable in the year can be carried back three years or forward twenty. ITCs claimed reduce the SR&ED expenditures that can be deducted for tax purposes.

For qualifying CCPCs, the ITC rate is increased to 35% on the first \$3 million of expenditures of an associated group. The \$3 million expenditure limit is phased out when taxable income and/or taxable capital fall within the following ranges:

Table 4 – Federal expenditure limits

Phase-out range	Taxable income[1]	\$500,000 to \$800,000
	Taxable capital[1]	\$10 million to \$50 million

Source: Federal income tax legislation

1. Thresholds are in respect of the previous year, on an associated basis.

ITCs unused by CCPCs are refundable at a rate of 100% of ITCs computed at the 35% rate and 40% of ITCs computed at the 15% rate. ITCs not refundable can be carried back or forward, as discussed above.

Effect of Ontario and federal SR&ED incentives

The Ontario and federal incentives significantly reduce the after-tax cost of SR&ED expenditures. For example, as demonstrated in Table 5, for a large company the after-tax cost of $1,000 on current expenditures can be as low as $477 in Ontario.

Table 5 – After-tax cost of SR&ED expenditures for a large corporation[1]

	2015		
	SR&ED expenditure	**SR&ED expenditure at an eligible Ontario research institute**	**Non-SR&ED expenditure**
Current expenditure	$1,000	$1,000	$1,000
20% OBRITC	$0	($200)	$0
Subtotal	$1,000	$800	$1,000
4.5% ORDTC	($45)	($36)	$0
Subtotal	$955	$764	$1,000
15% federal ITC	($143)	($115)	$0
Subtotal	$812	$649	$1,000
Tax at 26.5%	($215)	($172)	($265)
Net after-tax cost	**$597**	**$477**	**$735**

1. The example assumes that the 2015 federal/Ontario general rate (i.e. 26.5%) applies. The results vary depending on the applicable income tax rate. For example, the $477 net after-tax cost would be $487 if the 2015 federal/Ontario M&P rate (i.e. 25%) applied.

Film production, television and digital media tax incentives

Film and television production in Canada reached $5.86 billion in 2013/2014, up 2.1% over the previous year.[1] Important advantages contribute to Canada's popularity, including the federal and Ontario tax incentives discussed below. Further information can be obtained from PwC's *The big table* publication.[2]

Canadian Film or Video Production Tax Credit

Canada's federal government provides Canadian-controlled corporations a refundable tax credit, the Canadian Film or Video Production Tax Credit, equal to 25% of qualified labour expenditures (to a maximum of 15% of the total production costs) for film or video productions that meet Canadian content requirements.

Canadian Film or Video Production Services Tax Credit

The Canadian Film or Video Production Services Tax Credit is a 16% credit on qualified Canadian labour expenditures, available to corporations with a permanent establishment in Canada.

1. See Canadian Media Production Association Profile 2014, page 4.
2. Available at: **www.pwc.com/ca/bigtable**.

Ontario Film and Television Tax Credit

Ontario provides generous incentives for film and video productions in the province. The incentives are in the form of refundable tax credits, based on eligible Ontario labour expenditures for the productions. Their design parallels the Canadian Film or Video Production Tax Credit.

The refundable Ontario Film and Television Tax Credit (OFTTC) is available to Canadian-controlled corporations with a permanent establishment in Ontario. It is equal to 35% of qualified Ontario labour expenditures (with no maximum) for productions that meet Canadian content requirements.

Additional Ontario incentives provide:

- a regional credit, equal to 10% of qualified Ontario labour if at least 85% of principal photography is outside the Greater Toronto Area
- an enhancement for first-time producers, equal to an additional 5% credit on the first $240,000 of qualified labour expenditures

Ontario Production Services Tax Credit

Productions that do not meet the Canadian content requirements of the OFTTC, or that could meet those requirements, can choose to claim the Ontario Production Services Tax Credit (OPSTC), a refundable tax credit equal to 21.5% of qualified Ontario production expenditures (25% if expenditures are incurred before April 24, 2015, and in certain cases, before August 1, 2016), available to corporations with a permanent establishment in Ontario.

Ontario Computer Animation and Special Effects Tax Credit

The refundable Ontario Computer Animation and Special Effects Tax Credit (OCASE) is available to corporations that perform computer animation and special effects in Ontario for qualifying film and television productions. The credit is available to Canadian taxable corporations that have a permanent establishment in Ontario. It equals 18% of eligible Ontario labour expenditures (20% if expenditures are incurred before April 24, 2015, and in certain cases, before August 1, 2016). For productions that start after April 23, 2015, the corporation must also receive either the OFTTC or the OPSTC to be eligible.

Ontario Interactive Digital Media Tax Credit

Ontario provides the refundable Ontario Interactive Digital Media Tax Credit (OIDMTC) for eligible Ontario labour expenditures and eligible marketing and distribution expenditures incurred:

- by Canadian taxable corporations with a permanent establishment in Ontario, and
- to develop an interactive digital media product

An eligible interactive digital media product must:

- entertain, or educate children under 12, and
- present information using at least two of text, sound and images

For expenditures incurred before April 24, 2015, the primary purposes of the product had to be to educate, inform or entertain, regardless of age.

The credit is:

- 40% of qualifying expenditures for qualifying corporations that develop and market their own eligible products
- 35% for corporations that develop specified products under a fee-for-service arrangement between a qualifying corporation and an arm's length purchaser for the purpose of sale or licence
- 35% for "qualifying digital game corporations" that incur a minimum of $1 million of eligible Ontario labour costs in any 36-month period that is directly attributable to the development of a single digital game under an arrangement with a purchaser corporation, or
- 35% for "specialized digital game corporations" that incur a minimum of $1 million of Ontario labour expenditures in the taxation year of development and have either 80% of Ontario payroll or 90% of annual revenues attributable to interactive digital game development

The development requirement for the credit was retroactively changed in the 2015 Ontario budget, for all products awaiting certification after April 23, 2015. To be eligible:

- 25% of the total development labour to create the product must be attributable to employee wages in Ontario, and
- 80% of the total development labour must be attributable to employee wages, self-employed individuals with no employees, or incorporated individuals carrying on a personal services business, in Ontario

Previously, the credit required that an applicant develop all or substantially all of the product.

Other tax incentives

Ontario Book Publishing Tax Credit

Ontario provides the 30% refundable Ontario Book Publishing Tax Credit (OBPTC) for eligible Ontario expenditures incurred by a Canadian-controlled corporation that carries on a book publishing business primarily through a permanent establishment in Ontario. A qualifying corporation must allocate more than 50% of its taxable income to Ontario in the taxation year the credit is claimed and must have published at least two books in the previous year.

The maximum credit is $30,000 per book. The book must be written by a Canadian author and must belong to an eligible category of writing (i.e. adult or children's fiction, non-fiction, poetry, biography).

Ontario Tax Exemption for Commercialization

The Ontario Tax Exemption for Commercialization (OTEC) provides a 10-year income and minimum tax exemption for qualifying corporations that commercialize certain types of intellectual property (e.g. bioeconomy/clean technologies, advanced health technology, certain telecommunications, computer and digital technologies) developed by qualifying Canadian universities, colleges or research institutes.

A qualifying corporation had to be incorporated in Canada after March 24, 2008, and before March 25, 2012, and must derive all or substantially all of its gross revenue from eligible commercialization businesses. Eligible commercialization activities include developing prototypes and marketing and manufacturing products related to the intellectual property.

Apprenticeship Training Tax Credit

The Apprenticeship Training Tax Credit (ATTC) is a refundable tax credit available to businesses on salaries and wages paid to apprentices employed in designated construction, industrial, motive power and service trades. Table 6 outlines the details.

Table 6 – Apprenticeship Training Tax Credit

		For apprenticeship programs commencing	
		before April 24, 2015	after April 23, 2015
Credit rate	Small business	45%	30%
	Other businesses	35%	25%
Maximum tax credit per apprentice	Annual	$10,000	$5,000
	Cumulative	$40,000	$15,000
Months in apprenticeship that credit can be claimed		First 48	First 36

Source: Ontario income tax legislation

Co-operative Education Tax Credit

The Co-operative Education Tax Credit (CETC) is a refundable tax credit available to businesses that hire students enrolled in a recognized post-secondary co-operative education program. It applies to wage costs incurred with respect to the student work placement as follows:

Table 7 – Co-operative Education Tax Credit

		Amount
Credit rate	Small business	30%
	Other businesses	25%
Maximum tax credit per student placement		$3,000

Source: Ontario income tax legislation

Electric vehicle incentive program

Ontario consumers (including businesses) are eligible for a $5,000 to $8,500 incentive on the purchase or lease of a new plug-in hybrid electric or battery electric vehicle. Vehicles must be on an official list to qualify.

Community Food Program Donation Tax Credit

Ontario farmers (including corporations that carry on an Ontario farming business) can claim a 25% non-refundable tax credit for donating agricultural products to community food programs.

Determining taxable income

The starting point for determining taxable income for corporate income tax purposes in Canada is usually income measured under Generally Accepted Accounting Principles (GAAP) (i.e. International Financial Reporting Standards (IFRS) for most "publicly accountable enterprises;" IFRS or Accounting Standards for Private Enterprises (ASPE) for private enterprises). This amount is revised for adjustments made under the *Income Tax Act* (e.g. relating to the treatment of depreciation, valuation of inventories, deductibility of reserves, and some specific expenses, such as meals and entertainment expenses—which are only 50% deductible).

Functional currency

The amount of income, taxable income and taxes payable by a taxpayer is determined in Canadian dollars. However, certain corporations resident in Canada can elect to determine their Canadian taxable income in the corporation's "functional currency."

Depreciation

Depreciation and amortization in the financial statements are added back to compute taxable income. Tax depreciation, referred to as capital cost allowance (CCA) and generally calculated on a declining-balance basis at prescribed rates, is deducted. Most CCA rates approximate the economic depreciation rates. However, some exceed economic depreciation rates and are designed to provide incentives for investment in certain assets.

CCA cannot be claimed until the asset is available for use. Generally, in the first year, CCA is limited to 50% of the deduction that would otherwise be available: the "half-year rule." A taxpayer can claim any amount of CCA up to the maximum allowed.

Table 8 – Maximum annual prescribed CCA rates for common types of property

Commercial and industrial buildings	4% to 10%
Office equipment	20%
Motor vehicles	30%
Manufacturing and processing machinery and equipment	30%[1]
Computers	55%
Other plant machinery and equipment	20%

Source: Federal income tax legislation

1. Temporary incentives that accelerate depreciation for M&P machinery and equipment acquired:
   - after March 18, 2007, and before 2016, revise the rate and method from 30% declining balance to 50% straight-line
   - after 2015 and before 2026, revise the method from 50% straight-line to 50% declining balance

Capital assets generally are pooled into classes. On the disposition of an asset, the undepreciated balance of the class is reduced by the proceeds of disposition (up to the asset's original cost). If the proceeds of disposition exceed the balance of the class, the excess is recaptured and is taxable as regular income. However, if the only or last asset in a class is disposed of, any remaining balance in the class is deducted from income as a terminal loss, although limits apply to buildings and certain automobiles.

Non-capital losses

Non-capital losses (i.e. business losses other than from the disposal of capital assets) can be deducted from income from all sources. Any excess non-capital losses can be carried back three years or forward twenty. The ability to use losses may be restricted if there is an acquisition of control of the shares of the corporation.

Capital gains and losses

The amount by which the proceeds on the disposition of a capital asset exceeds the cost of the asset is generally taxed as a capital gain. Only 50% of capital gains (referred to as taxable capital gains) are included in income for tax purposes.

Capital losses can be used only to reduce capital gains. They cannot be deducted from income from other sources. An exception applies to capital losses from an investment in debt or shares of a CCPC, called allowable business investment losses, which can be deducted against income from any source. Net capital losses—the deductible portion of capital losses (other than allowable business investment losses) in excess of taxable capital gains—can be carried back three years and forward indefinitely to reduce taxable capital gains.

Dividends

In general, dividends paid by one Canadian corporation to another are tax-free. However, private companies are subject to a special 33.3% refundable tax on dividends received on portfolio investments, to prevent them from obtaining significant tax deferrals on portfolio dividends. This tax is refunded when the dividends are redistributed to the private company's shareholders. Additional taxes may be imposed on dividends paid on certain classes of shares that are viewed as substitutes for debt (e.g. preferred shares that are redeemable or retractable).

Canadian-resident corporations may be required to track the source of the dividends paid as either eligible dividends or non-eligible dividends. Eligible dividends are designated as such by the payor and include dividends paid by:

- public corporations or other corporations that are not CCPCs, are resident in Canada and are subject to the federal general corporate income tax rate (i.e. 15% in 2015), or
- CCPCs, if the CCPC's income is:
  - not investment income (other than eligible dividends from public corporations), and
  - subject to the federal general corporate income tax rate (i.e. the income is active business income not subject to the federal small business rate)

Non-eligible dividends include dividends paid out of either income eligible for the federal small business rate or a CCPC's investment income (other than eligible dividends received from public companies).

Inventories

Corporations can use different inventory valuation methods for accounting and tax purposes. The valuation method selected for tax purposes must be applied consistently from year to year unless approval is received from the Minister of National Revenue. For tax purposes, inventories may be valued in either of two ways:

- all items are valued at fair market value, or
- each item is valued at the lower of its cost and its fair market value

Foreign tax credits

Taxpayers are allowed to claim a foreign tax credit for certain income taxes paid to foreign governments on income earned abroad. Generally, the credit is allowed for the lesser of the foreign income taxes paid and the Canadian income taxes otherwise payable on the foreign income.

Rules for non-residents

Offshore investment funds

The offshore investment fund rules affect Canadian residents that have an interest as a beneficiary in these funds. If the rules apply, the taxpayer will be required to include in its income an amount generally determined as the taxpayer's cost of the investment multiplied by a prescribed income percentage (i.e. the prescribed rate of interest plus 2%) less any income received from the investment.

Non-resident trusts

A non-resident trust (NRT) will generally be deemed to be resident for Canadian tax purposes if (i) it has Canadian resident contributors or (ii) certain former Canadian residents have contributed to an NRT that has Canadian resident beneficiaries. However, an election can be filed to deem the creation of a separate notional trust for tax purposes, referred to as a "non-resident portion trust." Canadian tax will apply only to the income or gains from the properties held by the trust that are not included in the non-resident portion trust. Properties included in the non-resident portion trust are those properties that have not been directly or indirectly contributed by a Canadian resident or certain former Canadian residents. Many direct or indirect transfers or loans of property or services can be deemed to be contributions to an NRT.

Debt-to-equity rules

Canada imposes a thin-capitalization rule limiting the deduction of interest paid or payable by a Canadian resident corporation to specified non-residents (major shareholders and affiliates) on debt exceeding one and a half times the corporation's equity (as defined for this purpose). The thin-capitalization rule does not apply to a branch of a foreign corporation.

Foreign affiliates

In general, a foreign corporation is a foreign affiliate of a Canadian corporation if:

- the Canadian corporation owns, directly or indirectly, at least 1% of any class of the outstanding shares of the foreign corporation, and
- the Canadian corporation, alone or together with related persons, owns directly or indirectly at least 10% of any class of the outstanding shares of that foreign corporation

Dividends received by a Canadian corporation from a foreign affiliate are generally received tax-free in Canada if they are derived from active business profits earned in a country with which Canada has a tax treaty or Tax Information Exchange Agreement (TIEA) and certain residency requirements are met. The dividends are taxable in Canada if they are derived from passive operations or any operations in a non-treaty, non-TIEA country. A deduction from income for the underlying foreign taxes paid provides essentially the same relief as a foreign tax credit.

Dividends may also be paid by a foreign affiliate to a Canadian corporation from capital gains realized by the foreign affiliate on the disposition of certain other foreign affiliate shares and partnership interests, with a partial or full deduction for related income or profits taxes being available.

Capital gains realized by non-residents

Subject to applicable tax treaties, non-residents must pay income tax on taxable capital gains (50% of gains net of allowable capital losses) arising on the disposition of taxable Canadian property. Taxable Canadian property of a taxpayer includes:

- real estate situated in Canada
- both capital and non-capital property used in carrying on a business in Canada
- in general, shares in a Canadian-resident corporation that are listed on a stock exchange if, at any time in the preceding 60 months:
  - 25% or more of the shares of the corporation are owned by the taxpayer or related persons to the taxpayer, and
  - more than 50% of the fair market value of the shares is derived directly or indirectly from real property situated in Canada, Canadian resource properties and timber resource properties, and
- in general, shares in a Canadian-resident corporation that are not listed on a stock exchange if, at any time in the preceding 60 months, more than 50% of the fair market value of the shares is derived directly or indirectly from property similar to that described above for shares of a public corporation

However, in specific situations the disposition of a share that is not described above may be subject to Canadian tax (e.g. when a share is deemed to be taxable Canadian property).

The general requirement is that a non-resident vendor of taxable Canadian property must report the disposition to the CRA and obtain a clearance certificate in respect of the disposition. If no certificate is obtained, the purchaser is required to withhold and remit to the CRA 25% of the sales proceeds.

Relief from the reporting and 25% withholding requirements may be available if specified conditions are met, e.g. if the gain from the disposition is not taxable in Canada by virtue of a tax treaty Canada has with another country. However, if the parties to the transaction are related, the CRA must be notified to be exempt from these requirements.

Branch tax

In addition to income tax, a 25% "branch tax" applies to a non-resident's after-tax profits that are not invested in qualifying property in Canada. The branch tax is essentially equivalent to a non-resident withholding tax on funds repatriated to the foreign head office. The branch tax rate may be reduced to the withholding tax rate on dividends prescribed in the relevant tax treaty.

Withholding tax rates

Canada imposes withholding taxes on dividends, certain types of interest (i.e. interest paid to related parties and participating interest) and royalties paid to non-residents, generally at a rate of 25% (unless reduced by a tax treaty). Canada's withholding taxes are administered by the CRA and related remittance and filing requirements apply.

Table 9 shows withholding tax rates on certain payments from Canada to residents of select countries with which Canada has tax treaties. Exceptions or conditions may apply, depending on the terms of the particular treaty.

Table 9 – 2015 Canadian withholding tax rates (%)

<table>
<tr><th></th><th></th><th>Dividends[1]</th><th>Related-party interest</th><th>Royalties[2]</th></tr>
<tr><td rowspan="6">Residence of recipient</td><td>Australia N</td><td rowspan="6">5 or 15</td><td rowspan="5">10</td><td>10</td></tr>
<tr><td>France</td><td rowspan="2">0 or 10</td></tr>
<tr><td>Germany</td></tr>
<tr><td>Japan</td><td>10</td></tr>
<tr><td>United Kingdom</td><td rowspan="2">0 or 10</td></tr>
<tr><td>United States[3]</td><td>0</td></tr>
</table>

Sources: Applicable Canadian income tax treaties

N Negotiation or renegotiation of tax treaty or protocol underway.

1. The lower rate applies if the recipient is a company that owns or controls a specified interest of the payor.
2. The nil rate generally applies to royalties on cultural works and to royalties relating to computer software or patents and know-how or for broadcasting. Withholding tax of 25% may apply to royalties for the use of real or immovable property, including resource property.
3. For the United States, the reduced treaty rates apply, subject to the Limitation on Benefits article.

Transfer pricing

Canadian transfer pricing legislation and administrative guidelines are generally consistent with Organisation for Economic Co-operation and Development (OECD) Guidelines. Statutory rules require that transactions between related parties be carried out under arm's-length terms and conditions.

Penalties may be imposed when contemporaneous documentation requirements are not met. A taxpayer will be deemed not to have made reasonable efforts if the taxpayer does not maintain complete and accurate documentation to evidence that it has determined and used arm's-length prices for its related-party transactions. The documentation must be prepared on or before the taxpayer's documentation due date, which is six months after the end of the taxation year for corporations.

Canada has an Advance Pricing Arrangement (APA) program that is intended to help taxpayers determine transfer prices acceptable to the local tax authorities and, when negotiated as bilateral or multilateral APAs, with tax authorities in other jurisdictions. Under this program, 342 APAs have been completed or are in progress.

Many of Canada's international tax agreements contain provisions concerning income allocation in accordance with the arm's-length principle. These include a Mutual Agreement Procedure, which is a treaty-based mechanism through which taxpayers can petition competent authorities for relief from double taxation resulting from transfer pricing adjustments.

4. Capital and premium taxes

Ontario capital tax

Ontario does not levy a capital tax. It was eliminated for all corporations on July 1, 2010.

Special additional tax on life insurers

Ontario imposes a special additional tax at a rate of 1.25% on the taxable paid-up capital of life insurance companies allocated to the province. The rate may be effectively reduced because of a graduated capital allowance that must be shared among related life insurers. After taking into account the capital allowance, the special additional tax is imposed at a rate of 0.3125% on taxable capital employed in Canada exceeding $300 million. The rate is higher on taxable capital below this threshold, but it is nil on taxable capital less than $10 million. This tax is not deductible in computing income for Ontario income tax purposes, but may be offset by the corporation's Ontario income tax and CMT liability for the year.

Federal capital tax

Financial institutions, including life insurance corporations, are subject to the Part VI Financial Institutions Capital Tax at a rate of 1.25% on taxable capital over $1 billion. The $1 billion threshold is shared among related financial institutions. The tax is reduced by the corporation's federal income tax liability. Any unused federal income tax liability can be applied to reduce the Financial Institutions Capital Tax for the previous three and the next seven years.

Premium taxes on insurance companies

Insurance corporations are subject to Ontario premium taxes equal to 2% of gross premiums payable under contracts of accident, life and sickness insurance, 3.5% of gross premiums under property insurance and 3% of gross premiums payable under all other insurance contracts.

5. Payroll taxes

The three payroll taxes levied on businesses in Ontario are:

- federal Employment Insurance (EI) premiums
- Canada Pension Plan (CPP) contributions
- Ontario Employer Health Tax (EHT)

Employment Insurance premiums

The EI program provides income replacement benefits to workers who lose their jobs. It also offers maternity, paternity, sick and compassionate care benefits and employment support measures, such as training programs that help people find gainful employment. EI is financed through employee and employer premiums, which are set annually.

Table 10 – 2015 EI premiums

	Employee	Employer
Maximum annual insurable earnings	$49,500	
Premium per $100 insurable earnings	$1.88	$2.632
Annual maximum contribution	$930.60	$1,302.84

Source: Canada Revenue Agency Guide T4127(E) Rev. 15

Employers that pay EI premiums of $15,000 or less in 2015 and/or 2016 will qualify for a partial refund.

Canada Pension Plan contributions

The CPP is a contributory, earnings-related social insurance program. It ensures a level of income to a contributor and his or her family. The three kinds of CPP benefits are:

- retirement pensions
- disability benefits, which include benefits for disabled contributors and for their dependent children
- survivor benefits, which include death benefits, survivor's pensions and children's benefits

CPP premiums are determined annually and are the same for employees and employers. Self-employed individuals pay both portions.

Table 11 – 2015 CPP premiums

	Employee and employer	Self-employed
Maximum pensionable earnings	$53,600	
– Basic exemption	$3,500	
= Maximum contributory earnings	$50,100	
Contribution rate	4.95%	9.9%
Annual maximum contribution	$2,479.95	$4,959.90

Source: Canada Revenue Agency Guide T4127(E) Rev. 15

Every person in Canada over 18 and under 65 who participates in the paid workforce must pay into the CPP. (However, individuals who work in Quebec must contribute to the Quebec pension plan, instead of the CPP.)

Individuals who are:

- 65 to 70, work and receive CPP retirement benefits can elect to stop making CPP contributions
- 70 or older, no longer contribute to the CPP, even if they are still working

Ontario Retirement Pension Plan

Under the proposed Ontario Retirement Pension Plan (ORPP), employers and employees that do not already participate in a comparable pension plan will each be required to contribute up to 1.9% on a maximum annual earnings of $90,000 (maximum annual contributions of about $1,644 each, if the basic earnings exemption is $3,500, the same as the CPP). Contributions would be phased in, starting 2017, reaching 1.9% by 2021 (or earlier). Benefits would be paid starting 2022 and would aim to provide an annual pension of 15% of an individual's earnings up to $90,000 (maximum annual pension of $12,815). Amounts are in 2014 dollars and would be indexed.

Workplace Safety and Insurance Board

Employers pay premiums for workplace safety and insurance coverage in case of a workplace injury or illness. Most businesses in Ontario must register with the Workplace Safety and Insurance Board (WSIB) within 10 days of hiring their first employee and must have WSIB coverage. Companies that are not required to be covered can choose to do so.

Payroll and health taxes

All employers (including private sector employers, public sector employers and non-profit organizations) are subject to the Ontario EHT. EHT is payable on the payroll of employees and former employees who work:

- at an Ontario location of the employer, or
- away from the employer's location, but are paid from the Ontario location

Private sector employers with annual Ontario payrolls equal to $5 million or less are exempt from paying EHT on the first $450,000 of Ontario payroll. This exemption must be shared among associated groups of employers. It will be indexed every five years, starting 2019.

Table 12 – Payroll and health tax rates for 2015

		Rate	Total Payroll[1]	Payroll tax
Manitoba	Health and Post-Secondary Education Tax	2.15%	Over $2,500,000	Payroll x 2.15%
		4.3%	$1,250,000 to $2,500,000	(Payroll - $1,250,000) x 4.3%
		0%	$0 to $1,250,000	$0
Newfoundland and Labrador		2%	Over $1,200,000	(Payroll - $1,200,000) x 2%
		0%	$0 to $1,200,000	$0
Northwest Territories / **Nunavut**	Payroll tax[2]	2%	Over $0	Payroll x 2%
Ontario	Employer Health Tax	1.95%	Over $5,000,000	Payroll x 1.95%
			$450,000[3] to $5,000,000	(Payroll - $450,000[3]) x 1.95%
		0%	$0 to $450,000[3]	$0
Quebec[4]	Health Services Fund	4.26%	Over $5,000,000	Payroll x rate
		Reduced rates	$1,000,000 to $5,000,000	
		2.7%[4]	$0 to $1,000,000	

Source: Provincial tax legislation

1. Associated employers must aggregate their payroll costs to apply the thresholds.
2. In the Northwest Territories and Nunavut, payroll tax is paid by employees through payroll withholdings.
3. The $450,000 exemption will be indexed every five years, starting 2019. It is not available to private-sector employers with annual Ontario payrolls over $5 million.
4. Every Quebec employer with payroll exceeding $2 million must allot 1% of payroll to training, or contribute the shortfall to a provincial fund. In limited cases, corporations may be exempt from contributing to the Health Services Fund, refunds may be made and the 2.7% rate is reduced for certain small- and medium-sized enterprises. Employers must also contribute to the Quebec parental insurance plan.

How competitive are Ontario payroll taxes?

As demonstrated in Table 13, employer payroll tax rates in Ontario are the lowest among the G7 countries. Due to differing earnings ceilings, contribution rates may not illustrate the effective payroll tax burden. For example, the US social security rate of 6.2% is applied to earnings up to US$117,000 (for 2014), resulting in a maximum annual contribution of US$7,254, while the maximum CPP premium payable by employers in 2014 was CA$2,426.

Table 13 – 2014 Employer social security and other taxes (%)

	Pension	Health	Unemployment	Family allowance	Total
Ontario	**4.95**	**1.95**	**2.63**	**0.00**	**9.53**
Quebec	5.18	4.26	2.14	0.78	12.36
France	10.20	13.10	4.30	5.25	32.85
Germany	9.45	8.33	1.50	0.00	19.28
Italy	32.08	*	*	*	32.08
Japan	8.74	5.00	0.85	0.15	14.74
United Kingdom	13.80	*	*	*	13.80
United States	6.20	1.45	6.00	0.00	13.65

Source: Taxing Wages 2013-2014, © OECD, 2015

* No comparable percentage value is available.

6. Indirect taxes

Two main forms of indirect tax are imposed in Ontario:

- the Harmonized Sales Tax (HST) on supplies made in Ontario
- specific commodity taxes (both federal and provincial), the most significant of which are excise taxes on fuel, tobacco and alcohol, and Retail Sales Tax (RST) on certain insurance premiums

Harmonized Sales Tax

Ontario's sales tax system is harmonized with the federal GST. Ontario imposes a single HST rate of 13%, which includes an 8% provincial component and the 5% GST. The HST is administered by the CRA. Registrants file a single GST/HST return. Businesses with annual taxable sales below $30,000 are not required to register.

Generally, businesses pay HST on their purchases and charge HST on their sales made in Ontario, and remit the net amount (i.e. the difference between the tax collected and the input tax credit (ITC) for the tax paid on purchases). To claim an ITC, the supplier must acquire the goods or services for consumption, use or supply in the course of commercial activities (i.e. making taxable supplies). Ontario imposes several limitations on ITCs (see **Recaptured input tax credits**).

The three categories of supplies and the rules for claiming ITCs are shown in the following table.

Table 14 – Categories of GST/HST supplies

	Subject to GST/HST?	Can suppliers claim ITCs?
Taxable supplies	Yes[1]	Yes
Zero-rated supplies	Yes (at 0%[2])	Yes (Supplies include basic groceries, prescription drugs, agricultural products and medical devices.)
Exempt supplies	No	No (Supplies include financial services, used residential housing, and most health, dental, child care and educational services.)

Sources: Federal excise tax legislation and the Canada Revenue Agency website.

1. HST at 13%, applies to taxable supplies made in Ontario.
2. Zero-rated supplies are taxable supplies subject to tax at 0%. The supplier is entitled to claim ITCs because a zero-rated supply can be a supply made in the course of a commercial activity.

Recaptured input tax credits

A large business (i.e. a business whose annual taxable supplies, including those of its associated group, exceed $10 million and financial institutions) must recapture the provincial component of ITCs claimed for certain expenses, essentially limiting the recovery to the federal component. The recapture rate, which was 100% until June 30, 2015, is being phased out over three years, and will be eliminated on July 1, 2018.

The recaptured ITCs apply to:

- electricity, gas, combustibles and steam (except for use in manufacturing goods for sale and farming)
- telecommunication services (except Internet access or toll-free numbers)
- road vehicles (less than 3,000 kilograms), certain related parts and services, and fuel
- food, beverages and entertainment

Non-residents and the GST/HST

Generally, non-residents of Canada are required to register for the GST/HST if the non-resident makes a taxable supply in Canada and "carries on a business" in Canada. To determine whether a non-resident carries on a business in Canada is a question of fact that requires careful analysis. A non-resident non-registrant (a non-resident that is not required to be registered for GST/HST purposes) is not required to collect GST/HST on taxable supplies sold to Canadian customers.

If a non-resident non-registrant pays GST/HST on goods and services it acquires in Canada, it can be advantageous to register voluntarily when available, to be able to claim ITCs on these purchases. Once registered, non-residents are required to collect and remit tax as well as file periodic GST/HST returns. In addition, a non-resident of Canada that does not have a permanent establishment in Canada will be required to post security to register for the GST/HST.

Gasoline and diesel fuel taxes

Motive fuels (gasoline, diesel, and aviation fuels) are subject to both federal and provincial taxes, levied at specific rates per litre of fuel, as follows.

Table 15 – 2015 Fuel taxes (¢ per litre)

	Ontario	Federal	Combined
Unleaded gasoline	14.7	10.0	24.7
Diesel	14.3	4.0	18.3
Aviation	4.7[1]	4.0	8.7

Sources: Federal and Ontario government websites

1. Ontario's aviation fuel tax rate was 3.7¢ before April 1, 2015, and will increase to 5.7¢ on April 1, 2016, and to 6.7¢ on April 1, 2017.

Motive fuels are also subject to HST.

7. Foreign trade

Import duties

Import duties (also known as custom tariffs) are taxes levied on goods imported into Canada. The amount of import duties that applies to imported goods depends on a number of factors, including the nature of the duties (i.e. *ad valorem* or specific), tariff classification, country of origin, value for duty declared and the possible application of other import duties/levies, such as anti-dumping and countervailing duties or import excise duties and taxes.

The Tariff Schedule to the Customs Tariff, which is based on the World Customs Organization's Harmonized Commodity Description and Coding System, sets out the custom duty rates for goods imported into Canada. Goods that originate from most countries with which Canada does not have a free trade agreement (FTA) or other preferential tariff arrangement will generally attract the most-favoured-nation (MFN) duty rate or tariff treatment.

Canada has 11 FTAs currently in force. Canada's major FTA is the North American Free Trade Agreement (NAFTA), which applies to Canada, the United States and Mexico. Most goods that qualify and originate in the NAFTA territory that are imported into Canada are eligible to benefit from duty-free treatment (exceptions apply).

Canada's other FTAs are with Chile, Colombia, Costa Rica, the European Free Trade Association (which includes Iceland, Liechtenstein, Norway and Switzerland), Honduras, Israel, Jordan, the Republic of Korea, Panama and Peru. Under these FTAs, the countries may be eligible for reduced tariff benefits at rates that are more favourable than the MFN rate. Most imports are tariff-free or scheduled for reduction to tariff-free status after a tariff phase-out period under the specific FTA. Canada has also concluded negotiations for a FTA with Ukraine. Like the NAFTA, these FTAs set out rules of origin for determining whether goods are eligible for preferential tariff treatment.

Canada is currently in negotiations with several other countries (e.g. Japan and India). It is also taking part in the Trans-Pacific Partnership (TPP) free trade negotiations, which covers the Asia-Pacific Region.

Canada and the European Union (EU) have also signed an agreement-in-principle to remove trade barriers and drop import duties on a wide variety of goods. The Canada-EU Comprehensive Economic and Trade Agreement (CETA) requires ratification by both Canada and the European Union before coming into force.

Canada also extends preferential tariff rates to many (but not all) products imported from countries via the General Preferential Tariff (GPT), the Least Developed Countries Tariff (LDCT), the Commonwealth Caribbean Countries Tariff (CCCT), the Australia Tariff (AUT) and the New Zealand Tariff (NZT). On January 1, 2015, GPT treatment was withdrawn from 72 countries, including China, Hong Kong and Thailand. In either case, to qualify for the preferential tariff rates, goods must meet various requirements with respect to the rules of origin and transshipment.

As in most countries, heightened security concerns have resulted in some changes to import and export procedures in Canada (e.g. for the transmission of shipment information before the arrival or departure of shipments).

The Canadian and US governments have recognized the need to balance security concerns with the vital economic interest that both countries have in the free flow of goods across the shared border. This has led to joint initiatives such as "Free and Secure Trade," which seeks to facilitate the movement of goods by recognized "low risk" importers, and policy co-ordination between the two countries on security programs, such as the US Customs-Trade Partnership Against Terrorism (C-TPAT) and Canada's "Partners-in-Protection" (PIP).

Import restrictions and controls

Generally, Canada is an open economy with relatively few import restrictions. However, several types of imports are subject to the requirements of other government departments and may require permits, licences, certificates, and/or additional inspections. The Canada Border Services Agency (CBSA) is generally responsible for administering these import requirements.

Some agricultural products (e.g. poultry, eggs, milk and certain processed products containing those items) are subject to higher duty rates if the volume of imports exceeds specified thresholds (tariff rate quotas). Importers can apply for (but may be denied) an allocation of a share of the quantity of goods that can be imported at the lower rates of duty (the within access commitment rates) through a system of import permits.

Certain goods (e.g. apparel or goods for personal or household use) must be clearly marked with the country of origin. Specific marking and labeling requirements may apply.

The CBSA website outlines Canadian import and export procedures on tariff rate quotas, among other things. Import permits, if required, may be issued, upon application, by the Export and Import Controls Bureau (EICB) of the Department of Foreign Affairs, Trade and Development Canada (DFATD) or another government agency, depending on the nature of the goods.

Punitive duties, including anti-dumping and countervailing duties, may be levied under the *Special Import Measures Act* (SIMA) on certain goods imported into Canada.

Export controls and economic sanctions

Canada applies export controls and economic sanctions in accordance with international initiatives, such as the Wassenaar Arrangement, and to comply with United Nations (UN) sanctions. Exports of controlled goods and technology are administered by the DFATD and, in some cases, by other agencies, such as Health Canada and the Canadian Nuclear Safety Commission. All exports of US-origin goods require an export permit, although it may be possible to export US-origin goods under a General Export Permit, which does not require an application to the DFATD. If export permits are required, they are also issued by the EICB of the DFTAD. In addition to controls on specific goods and technology, some controls are applied to exports to specific destinations or persons.

8. Property taxes and development charges

Property taxes

Property taxes are a vital source of revenue for all municipalities in Ontario. They are based on the assessed value of properties as determined by the Municipal Property Assessment Corporation (MPAC). The provincial government establishes the legislative framework governing property assessment policy and the overall property tax structure. Municipalities administer property taxes, including billing and collection.

The tax has two components—a municipal tax and an education tax. The municipal portion finances a wide range of municipal services, including police and fire protection, garbage and snow removal, road maintenance, public health and welfare. The education portion helps finance the elementary and secondary education systems in Ontario.

Municipalities set their own tax rates for the municipal portion of the property tax, within provincially established limits on the relative municipal taxes on different classes of property. The provincial government sets the tax rates for the education portion of the property tax.

Property taxes are calculated by multiplying the assessed value of a property by the tax rate.

Table 16 – Select 2015 Ontario property tax rates (%)

	Commercial tax rates			Industrial tax rates		
	Municipal	Education	Total	Municipal	Education	Total
Brampton	1.19	1.07	2.26	1.35	1.33	2.68
Kingston	2.36	1.43	3.79	3.14	1.53	4.67
London	2.28	1.43	3.71	2.28	1.53	3.81
Mississauga	0.98	1.07	2.05	1.09	1.33	2.42
Ottawa	0.96	1.21	2.17	1.31	1.53	2.84
Sault Ste. Marie	3.03	1.19	4.22	4.20	1.19	5.39
Toronto	1.54	1.23	2.77	1.53	1.30	2.83

Sources: 2015 Municipalities' websites and officials

Development charges

Municipalities in Ontario are permitted to impose development charges in connection with building, constructing, renovating or expanding buildings and developing land. These charges, which are typically payable when a building permit is issued, allow municipalities to recover their capital costs related to growing their communities. Examples of these capital costs are roads, water and wastewater systems, and libraries for new residents.

9. Personal income tax

Basic personal income tax

Like all Canadian provinces and territories, Ontario levies personal income tax on the taxable income of individuals and certain trusts residing in the province. This is in addition to the federal income tax. Federal and Ontario income tax are based on a common definition of taxable income, to which different rates and credits are applied.

In general, taxable income includes income from office or employment, interest, grossed-up dividends (discussed on the next page under **Dividends**) and taxable capital gains. Limited deductions are allowed in computing taxable income.

Table 17 – Basic federal and provincial personal income tax calculation

	Federal income tax		Ontario income tax
	Taxable income		Taxable income
x	Federal tax rates	x	Ontario tax rates
=	**Federal tax before tax credits**	=	**Ontario tax before tax credits**
–	Federal non-refundable and other credits (including dividend tax credits)	–	Ontario non-refundable credits (excluding dividend tax credits)
=	**Basic federal tax**	=	**Basic Ontario tax**
+	Other federal payments/repayments	+	Ontario surtaxes
–	Investment, foreign and other tax credits	–	Ontario dividend tax credits
–	Refundable credits	–	Ontario tax reduction
		–	Ontario foreign tax credits
		–	Ontario refundable credits
		+	Ontario Health Premium
=	**Net federal tax**	=	**Ontario tax**

Sources: Federal and Ontario income tax legislation

Federal and Ontario income tax brackets are indexed annually. Federal and Ontario personal income tax brackets and tax rates for 2015 are shown in Table 18 and Table 19.

Table 18 – 2015 federal personal income tax brackets and rates (%)

		Marginal tax rate
Taxable income	Below $44,701	15
	$44,701 to $89,401	22
	$89,401 to $138,586	26
	Above $138,586	29

Source: Federal income tax legislation

Table 19 – 2015 Ontario basic personal income tax brackets and rates (%)

		Marginal tax rate (excluding surtax)
Taxable income	Below $40,922	5.05
	$40,922 to $81,847	9.15
	$81,847 to $150,000	11.16
	$150,000 to $220,000	12.16
	Above $220,000	13.16

Source: Canada Revenue Agency Guide T4127(E) Rev. 15

Ontario personal income surtax

In addition to the income tax calculated at the basic rates, Ontario levies a two-tiered surtax that is calculated as a percentage of the basic Ontario personal income tax in excess of specified thresholds. The dollar thresholds for the surtax are indexed annually.

Table 20 – 2015 Ontario surtax rates and thresholds

	Threshold	Rate
1st tier	> $4,418	20%
2nd tier	> $5,654	36%

Source: Canada Revenue Agency Guide T4127(E) Rev. 15

Tax credits

As shown in Table 21, both the federal and Ontario governments allow a variety of tax credits in calculating the tax payable.

Table 21 – Key 2015 federal and Ontario non-refundable tax credits

		Federal	Ontario
		Credits as a % of base amount or actual payment	
General factor[1]		15%[2]	5.05%
Charitable donations	First $200		
Charitable donations	Amount over $200	29%[2]	11.16%
Dividend tax credit (on grossed-up dividend)	Eligible	15.02%	10%
Dividend tax credit (on grossed-up dividend)	Non-eligible	11.02%	4.5%
		Maximum tax credit value[3]	
Basic		$1,699[4]	$498
Spouse/eligible dependant			$423
Age 65 and older		$1,055	$243
Disability	Basic	$1,185	$402
Disability	Under 18 supplement	$691	$235
Infirm dependant (18 or over)		$1.005[4]	
Caregiver		$691[4]	
Pension income		$300	$69
Child		n/a[4, 5]	n/a
Adoption		$2,288	$608
Children's fitness		n/a[6]	n/a[7]
Children's arts		$75	
CPP		$372	$125
Employment insurance (not in Quebec)		$140	$47
Canada Employment		$172	n/a
Family Tax Cut[8]		$2,000	
First-Time Home Buyers		$750	
Education (per month)	Full-time	$60	$27
Education (per month)	Part-time	$18	$8
Textbook (per month)	Full-time	$10	n/a
Textbook (per month)	Part-time	$3	

Sources: Federal and Ontario income tax legislation, Canada Revenue Agency Guide T4127(E) Rev. 15, and Ontario Personal Tax Credits Return (TD1ON E (15))

1. For most tax credits: General factor x federal (or Ontario) amount = federal (or Ontario) credit.
2. A temporary First-time Donor's Super Credit (maximum $250) can be claimed by first-time donors only once after 2012 and before 2018, for donations made after March 20, 2013. It is an additional tax credit (on top of claiming the Charitable Donations Tax Credit).
3. When the Ontario surtax applies, the value of the Ontario credits is multiplied by 1.2 or 1.56 (see Table 20).
4. Caregivers of dependants with a mental or physical infirmity can claim the Family Caregiver Tax Credit. This credit, which is valued at $314, is already included in the infirm dependant (18 or over) tax credit, or increases the spouse/eligible dependant, caregiver or child under 18 (see note 5) tax credit. Only one Family Caregiver Tax Credit can be claimed for each infirm dependant.
5. The child tax credit (except for the Family Caregiver Tax Credit portion, see note 4) was repealed after 2014.
6. Starting 2015, the Children's Fitness Tax Credit, which is valued at up to $150 ($225 for a child under 19 with a disability), is refundable.
7. Parents can claim a refundable credit of up to $55 per child under 17 who is enrolled in a physical activity or other qualifying program. An additional $55 credit is available for a child under 19 with a disability.
8. The Family Tax Cut (known as "income-splitting") is available for families with children under 18. The maximum credit is equal to the lesser of $2,000 and the federal tax reduction that would result if up to $50,000 of taxable income were transferred from the high-earner spouse to the low-earner spouse.

There is no dollar limit on the credits that can be claimed for charitable donations, dividends and for some other credits not shown above (e.g. for tuition, student loan interest, medical expenses and transit passes).

Ontario Trillium Benefit

The Ontario Trillium Benefit helps low-to-moderate income Ontarians. It consists of three refundable tax credits (the Ontario Sales Tax Credit, the Ontario Energy and Property Tax Credit and the Northern Ontario Energy Credit), and provides up to $1,423 in benefits in 2015 for single individuals (higher for families and seniors).

Alternative Minimum Tax

The Alternative Minimum Tax (AMT) was designed to target individuals and trusts that use tax shelters and other tax preference items to pay little or no income tax. Ontario residents are subject to federal and Ontario AMT.

Certain tax preference items that are deducted in calculating regular taxable income must be added back to determine adjusted taxable income for AMT purposes. After adjusted taxable income is reduced for a basic $40,000 exemption, a flat rate of 15% is applied to the net amount. To arrive at the federal AMT, the resulting federal tax payable is reduced by some, but not all, of the individual's regular tax credits. The AMT payable is the excess of the AMT over the regular tax payable. For 2015, Ontario AMT payable is 33.67% of the federal AMT payable. Ontario AMT may also be subject to Ontario surtaxes.

AMT paid can be carried forward for seven years and deducted when the regular tax payable exceeds the AMT in those years.

Ontario Health Premium

Ontario also imposes a health care premium on individuals with taxable incomes exceeding $20,000. The maximum premium of $900 is payable when taxable income is $200,600 or more.

The Ontario Health Premium is deducted from employee salaries and pensions through the income tax withholding system.

Personal income tax incentives

In addition to the tax credits discussed above, several other incentives are available to reduce an individual's federal and/or provincial (or territorial) income taxes. Some of the main incentives are described next.

Dividends

In Canada, corporate income is subject to federal and provincial/territorial corporate income taxes. When distributed as dividends to individuals, this income is also subject to federal and provincial/territorial personal income taxes. Canadian residents who receive a dividend from a Canadian company are required to gross-up the dividend by a notional amount of underlying corporate income tax and include the grossed-up dividend in income. The individual will then claim a credit, roughly equal to the amount of the gross-up, against taxes otherwise payable. The net effect is normally a reduction in the tax rate.

Dividends received by Canadian residents are either eligible dividends (which include most dividends paid by public corporations) or non-eligible dividends. Combined Ontario and federal tax rates on dividends follow:

Table 22 – Dividend tax rates

		Eligible dividends (%)	Non-eligible dividends (%)				
		2015	**2015**	**2016**	**2017**	**2018**	**2019**
Dividend gross-up		38	18	17		16	15
Dividend tax credit (on grossed-up dividend)[1]	Federal	15.02	11.02	10.52	10.02	9.51	9.03
	Ontario	10	4.5	4.29		4.07	3.85
Top combined rate[1]		**33.82**	**40.13**	**40.62**	**41.21**	**41.70**	**42.15**

Sources: Federal and Ontario income tax legislation

1. The dividend tax credit rates and top combined rates for 2016 to 2019 assume the province does not revise its legislation.

Capital gains

Only 50% of capital gains (net of any capital losses) are included in calculating personal federal and provincial/territorial income taxes. However, capital gains realized on the sale of an individual's personal residence are exempt from tax. In addition, a lifetime capital gains exemption of:

- $813,600 for 2015 (indexed thereafter) is available on gains realized on the sale of shares in qualified small businesses, and
- $1 million ($813,600 after 2014 and before April 21, 2015) is available on gains realized on the sale of shares in qualified farm property or qualified fishing property

Individuals can defer tax on all or a portion of capital gains realized on the sale of eligible small business corporation shares if the proceeds are reinvested in other eligible small business corporation shares.

The "tax on split income" rules (the "kiddie tax") apply to capital gains that are included in a minor's income, if the gain is attributable to a non-arm's length disposition of shares and any dividends on the shares would have been subject to the kiddie tax. These gains will be treated as dividends subject to the kiddie tax and will be ineligible for the lifetime capital gains exemption.

Retirement plan contributions

Individuals can use Registered Retirement Savings Plans (RRSPs) to accumulate tax-free savings for their retirement. Contributions to an RRSP are deductible in computing income for federal and provincial income taxes. Investment earnings that accumulate in an RRSP are tax sheltered, but withdrawals (whether from the original contribution or from investment income) are fully taxable. The amount that can be contributed in a year is equal to the lesser of:

- 18% of earned income for the previous year, and
- $24,930 in 2015, $25,370 in 2016 (indexed thereafter)

Any unused RRSP contribution room can be carried forward indefinitely.

Individuals participating in an employer pension plan (i.e. a registered pension plan) receive a "pension adjustment" each year, which reduces the contributions that can be made to an RRSP. This mechanism prevents individuals from doubling their tax-deferred retirement savings by using both types of plans.

Tax-Free Savings Account

Canadian residents age 18 or older can contribute up to $10,000 annually ($5,500 from 2013 to 2014; $5,000 from 2009 to 2012) to a Tax-Free Savings Account (TFSA). Contributions are not deductible. Withdrawals and income earned in the TFSA are not taxed. Any unused contribution room for a year can be carried forward indefinitely. Amounts withdrawn from a TFSA will be added to the individual's unused contribution room for the following year.

Immigration trusts

Immigrants to Canada can no longer shelter certain income and capital gains from Canadian taxation by using an offshore or non-resident trust. The 60-month exemption was removed, generally for trust taxation years ending after February 10, 2014.

10. Other taxes and fees

Specified investment flow-through (SIFT) entities

A "distribution tax" is imposed on certain income available for distribution by a SIFT (i.e. publicly traded income trusts and partnerships) to its unitholders. The tax rate equals the general federal corporate income tax rate plus a provincial component.

For all provinces (except Quebec), the provincial component is the general provincial corporate income tax rate (i.e. 11.5% for Ontario for December 31, 2015 year ends) of each province in which the SIFT has a permanent establishment. However, the rate is 10% for income not allocated to a province.

Land transfer tax

The provinces and territories levy a land transfer tax (LTT) or a registration fee on the purchaser of real property within their boundaries. In Ontario, the LTT is imposed on the transfer of land (which encompasses, among other things, buildings and other fixtures on the land), including transfers of a beneficial interest in land whether or not a transfer of title is registered. Specific rebates and exemptions may reduce or eliminate the amount of LTT payable.

Ontario's LTT is based on the "value of the consideration" given to acquire the land. In addition to Ontario LTT, the City of Toronto imposes its own LTT, so that real property located in Toronto is subject to both. The following graduated rates apply.

Table 23 – Land transfer tax calculation

	Ontario	Toronto
General	0.5% of portion ≤ $55,000 + 1.0% of portion between $55,000 and $250,000 + 1.5% of portion > $250,000	0.5% of portion ≤ $55,000 + 1.0% of portion between $55,000 and $400,000 + 1.5% of portion between $400,000 and $40 million + 1% of portion > $40 million
Family dwelling (one or two units)	As above + 0.5% of portion > $400,000	As above + 0.5% of portion between $400,000 and $40 million + 1% of portion > $40 million
	= Total Ontario LTT	**= Total Toronto LTT**

Sources: Ontario Land Transfer Tax Act and City of Toronto by-laws

Estate Administration Tax

Probate is an administrative procedure under which a court validates a deceased's will and confirms the appointment of the executor. All provinces and territories impose probate fees or administrative charges for probating a will. Ontario's probate fees (officially the Estate Administration Tax) for estates over $50,000 are $250 plus 1.5% of the portion exceeding $50,000.

Beginning January 1, 2015, a new "Estate Information Return" must be filed within 90 calendar days after a "Certificate of Appointment of Estate Trustee" is issued. The return contains an inventory of estate assets, including a description of and value for each, and will be used to calculate Ontario probate fees.

Abbreviations

AMT	Alternative Minimum Tax
APA	Advance Pricing Arrangement
ASPE	Accounting Standards for Private Enterprises
ATTC	Apprenticeship Training Tax Credit
AUT	Australia Tariff
CBSA	Canada Border Services Agency
CCA	capital cost allowance
CCPC	Canadian-Controlled Private Corporation
CCCT	Commonwealth Caribbean Countries Tariff
CETA	Comprehensive Economic and Trade Agreement
CETC	Co-operative Education Tax Credit
CMT	Corporate Minimum Tax
CPP	Canada Pension Plan
CRA	Canada Revenue Agency
C-TPAT	Customs-Trade Partnership Against Terrorism
DFATD	Department of Foreign Affairs, Trade and Development Canada
EHT	Employer Health Tax
EI	Employment Insurance
EICB	Export and Import Controls Bureau
EU	European Union
FTA	free trade agreement
GAAP	Generally Accepted Accounting Principles
GPT	General Preferential Tariff
GST	Goods and Services Tax
HST	Harmonized Sales Tax
IFRS	International Financial Reporting Standards
ITC	Investment Tax Credit[1] or input tax credit[2]
LDCT	Least Developed Countries Tariff
LTT	land transfer tax
MFN	most-favoured-nation
M&P	manufacturing and processing
MPAC	Municipal Property Assessment Corporation
NAFTA	North American Free Trade Agreement
NRT	non-resident trust
NZT	New Zealand Tariff
OBPTC	Ontario Book Publishing Tax Credit
OBRITC	Ontario Business Research Institute Tax Credit
OCASE	Ontario Computer Animation and Special Effects Tax Credit
OECD	Organisation for Economic Co-operation and Development
OFTTC	Ontario Film and Television Tax Credit
OIDMTC	Ontario Interactive Digital Media Tax Credit
OITC	Ontario Innovation Tax Credit
OPSTC	Ontario Production Services Tax Credit
ORDTC	Ontario Research and Development Tax Credit
ORPP	Ontario Retirement Pension Plan
OTEC	Ontario Tax Exemption for Commercialization
PIP	Partners-in-Protection
RRSP	Registered Retirement Savings Plan
RST	Retail Sales Tax
SIFT	Specified investment flow-through
SIMA	*Special Import Measures Act*
SR&ED	scientific research and experimental development
TFSA	Tax-Free Savings Account
TIEA	Tax Information Exchange Agreement
TPP	Trans-Pacific Partnership
UN	United Nations
WSIB	Workplace Safety and Insurance Board
WTO	World Trade Organization

1. For income tax purposes.
2. For GST/HST purposes.

Let's talk

For a deeper discussion of how the tax issues in *Taxation and tax incentives in Ontario* might affect you or your business, please contact your PwC tax adviser or any of the following individuals.

Tracey Jennings
Technology & Communications, Retail & Consumer
1 416 869 8737
tracey.l.jennings@ca.pwc.com

Jason Swales
Financial Services
1 416 815 5212
jason.a.swales@ca.pwc.com

Liam Fitzgerald
Energy, Utilities, Mining Industries
1 416 869 2601
liam.m.fitzgerald@ca.pwc.com

Jamie Mitchell
International Tax Services
1 416 814 5755
jamie.c.mitchell@ca.pwc.com

This booklet is published with the understanding that PwC is not thereby engaged in rendering accounting, legal or other professional service or advice. The comments included in this booklet are not intended to constitute professional advice, nor should they be relied upon to replace professional advice.