

**A BUDGET FOR HARD TIMES:
Analysis of the 2009 Ontario Budget
March 26, 2009**

POLICY UPDATE

For weeks, there have been numerous announcements showcasing key elements of the 2009 Ontario Budget – from the projected deficit, to infrastructure investments, social housing expenditures, and even harmonization of the Ontario Retail Sales Tax and GST. Some might ask, with much of the budget already out in the public domain, was there any news left for Budget Day?

The good news is that there **were** some surprises left in the Budget that was announced today - beyond the GST/ORST harmonization. Indeed, Budget 2009 introduces a number of comprehensive tax reform measures that are designed to strengthen Ontario businesses of all sizes, as well as reforms that will benefit seniors, and families. These measures include:

- The Ontario Retail Sales Tax (ORST) and GST will be merged effective July 1, 2010. Some of the previous exemptions under the ORST will continue for items such as books, diapers, children's clothing, etc. Newly constructed homes under \$400,000 will be exempt, and newly-constructed homes between \$400,000 and \$500,000 can claim a proportional rebate.
- Temporary tax relief for families and individuals include up to \$1000, paid out over three years, for family incomes of \$160,000 or less. Individuals earning \$80,000 or less can qualify for up to \$300.
- Permanent refundable tax credits for low income Ontarians of up to \$260 for each adult and child.
- Cutting the Ontario Personal Income Tax rate from 6.05 to 5.05 percent for the first income bracket (\$0 to \$36,848), effective January 1, 2010. For an Ontario tax filer earning \$36,000 or more, that's worth \$360.
- Comprehensive corporate tax relief, to be implemented on July 1, 2010, including:
 - Cutting the Corporate Income Tax (CIT) from 14 percent to 12 percent, and to 10 percent by 2013.
 - Cutting the CIT for small businesses from 5.5 to 4.5 percent (July 1, 2010).
 - Cutting the CIT for manufacturing and processing from 12 to 10 percent.
 - Eliminating the CIT small business deduction surtax.
 - Exempting more small and medium-sized businesses from the Corporate Minimum Tax, and cut the rate from four to 2.7 percent.

Beyond the tax measures, there were several key elements worthy of note:

Health: projected funding remains for the Ministry of Health and Long-term Care is very much in line with the budget plan outlined one year ago. The projected increases over the next three years remain **very** modest, and the growth curve for some line items (such as drug benefits) is flattening

(but not yet flat-lining). Expenditures in e-Health (\$2 billion) were already part of the Ministry's multi-year business plan.

Infrastructure spending: no changes here to what was announced earlier this week (\$32.5 billion over two years), but the negotiations with the Federal government across different funding envelopes and different Ministers is proving quite challenging. Project proponents will need to do their very best to ensure that both the Feds AND the province support their project(s).

Provincial deficit: strangely, not yet the killer issue that some would have expected (at least so far). The projected provincial deficit is due in part to dropping corporate revenues, but this is significantly outweighed by the stimulative measures in Minister Duncan's budget – both tax cuts as well as infrastructure investments. Ontario can take comfort that most other jurisdictions are implementing similar measures – whether south of the border, or even up in Ottawa. Perhaps the most interesting thing (so far) is that the current uproar is not about the size of the provincial deficit...but harmonization with the GST, which is viewed by some as a tax increase (even though it is revenue neutral).

Looking ahead, the 2009 Ontario Budget is going to be a “make it or break it” budget for the Ontario Liberals. There are some significant tax measures that are very positive for business, families, and other broader measures that will have a positive impact on the Ontario economy. The key test now is the degree to which the McGuinty Liberals are able to address any public uproar, rather than just the political uproar of Question Period. At this point, the opposition is not really the concern, with the provincial Tories in the midst of a leadership race, and the NDP leader still getting her sea legs. For the Liberals, they need to ensure that harmonization doesn't become their second mandate's “broken promise” in the eyes of the Ontario electorate – the equivalent of the Ontario Health Premium. This time they have a vocal chorus of support from most of industry...but this is just the first day.

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