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# 2012 Ontario and Federal Budgets
## WE-Tech Out to Lunch

**April 19, 2012**

# Major budget themes

- Changes to SR&ED
- Lack of personal tax reductions and any discussion of future changes lead to new way of thinking about tax planning
- Focus on cracking down on international tax planning
- Emphasis on cost-cutting

# Ontario budget

- Freeze general corporate rate at 11.5%
  - Was scheduled to drop to 10% by July 1, 2013
  - Cuts to resume in 2017-18
- Will consider implementing measures to fight aggressive tax planning (similar to Quebec)

# Combined Federal and Ontario Tax rates

- Consistent but not rising

| | |
|---|---|
| – Personal tax rate | 46.41% |
| – Corporate tax rate | 15.5% on first $500,000 |
| – 2012 | 26.5% on income over $500,000 |

# SR&ED Changes

# SR&ED Credit ITC Rate Changes

- Reduce the 20% SR&ED Federal investment tax credit rate to 15% for taxation years ending after 2013.
- No change to the enhanced 35% credit for eligible Canadian controlled private corporations
- Savings of $295M annually

# SR&ED Capital Expenditure Changes

- Exclude capital expenditures from SR&ED deductions and investment tax credits for property acquired after 2013
- Savings of $40M annually

# SR&ED Contract Expenditure Changes

- Limit qualifying expenditures to arm's length contractors to 80% of the contract payment for expenditures incurred after December 31, 2012
- Exclude from the payer's qualifying expenditures incurred after December 31, 2013, any amount that an arm's length contractor has paid in respect of a capital expenditure made to fulfill the contract
- Savings of $65M annually

# SR&ED Proxy Allocation Changes

- Reduce the prescribed proxy amount from 65% to 60% for 2013 and to 55% for years after 2013

- Savings of $100M annually

# SR&ED Rates Schedules - current vs. 2014

| | CURRENT | | | | 2014 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | ORDTC Waived | | ORDTC Claimed | | ORDTC Waived | | | ORDTC Claimed | | |
| **REFUNDABLE** | $ 68,475 | **41.50%** | $ 72,819 | **44.13%** | $ 64,325 | **-6%** | **41.50%** | $ 68,405 | **-6%** | **44.13%** |
| **NON-REFUNDABLE** | $ 33,000 | **20.00%** | $ 38,940 | **23.60%** | $ 23,250 | **-30%** | **15.00%** | $ 29,179 | **-25%** | **18.83%** |

*Note: Calculations are based on $100,000 of SR&ED labour expenditures + proxy allocation (65% current, 55% 2014)*

*Note: The %s in **RED** represent the comparative decline in credits earned after proxy and ITC rate changes*

# Effect on SR&ED Claim

- Eligible CCPC's are impacted less than those receiving the "low rate" ITC.
- If only claiming labour, the potential reduction is approximately 6% of ITC's for eligible CCPC's, or 25-30% for other corporations.
- Many technology-focused claimants subcontract out development efforts so the 20% reduction in those expenditures will have a greater effect.

# Opportunities

# SR&ED planning

- Move capital expenditures up before taken away
- Changes in mix between salary and contracts
- Consider long form vs. proxy
- CCPC status
- Maintaining taxable income below $500,000
- Maintaining taxable capital below $10 million

# Old Age Security

- Delay in benefits from 65 to 67
- Grandfathering – 55 or older
- Claw back at ~ $65K
- Need for flexibility in remuneration

# International Corporations

# Thin capitalization

- Interest on debt to related non-residents restricted where debt to equity ratio exceeds certain amount
- Was 3:1 for many years
- In 2000, reduced to 2:1
- Now reduced again to 1.5:1
- Restricted interest now deemed to be a dividend, subject to withholding tax

# International – Planning

- Guarantee fees maybe a way around tighter thin cap rules
- Look to charging other fees to lower worldwide tax
- Careful of withholding tax
- Capitalize

# Questions?

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