

Budget

EXPRESS

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ONTARIO PROVINCIAL BUDGET SPEECH

- **Tax Measures**

Tax cuts and reform
of the retail sales tax...
in 2010

- **Budget Analysis**

A long string of deficits...

*The government opts for
infrastructure modernization
and more competitive taxation*



Desjardins

Taxation Division | Economic Studies

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This afternoon, the Ontario Finance Minister, Mr. Dwight Duncan, handed down the 2009 Ontario budget. This budget includes a number of major tax measures, including both personal and corporate income tax reductions. However, the measure that has attracted the most attention is the complete reform of the Ontario Retail Sales Tax (RST) to come into effect on July 1, 2010. The Ontario Sales Tax will be harmonized with the Federal Goods and Services Tax (GST) at a combined rate of 13% with the federal portion at 5% and the provincial portion at 8%.

MEASURE AFFECTING DESJARDINS

Corporate Income Tax Rate Cut

The government is proposing to gradually reduce corporate income tax rates and eliminate the surtax applicable to income exceeding the amount eligible for the small business deduction, starting on July 1, 2010. The following table sets out the timetable for the tax reductions:

Date	Rates (Per Cent)			
	General	M&P ¹	Small Business ²	Small Business Deduction Surtax ³
Current	14	12	5.5	4.25
July 1, 2010	12	10	4.5	0
July 1, 2011	11.5	10	4.5	0
July 1, 2012	11	10	4.5	0
July 1, 2013	10	10	4.5	0

¹ Income from manufacturing and processing, mining, logging, farming or fishing.

² Applies to Canadian-controlled private corporations (CCPCs) on the first \$500,000 of active business income.

³ Applies to CCPCs on taxable income between \$500,000 and \$1.5 million.

Note: The proposed tax rate reductions would be pro-rated for taxation years straddling the effective dates.

In addition, in order to reduce the number of small and medium-size businesses subject to the Corporate Minimum Tax, the government proposes to cut this tax from 4% to 2.7% for tax years ending after June 30, 2010. This tax reduction will be pro-rated for taxation years straddling the effective date.

The Ontario government is also proposing to increase the thresholds at which corporations start paying the minimum tax. A corporation or an associated group would not pay the minimum tax if their total assets are lower than \$50 million (currently \$5 million) or if their annual gross revenues are lower than \$100 million (currently \$10 million).

Retail Sales Tax (RST) Reform

Principle

The government is proposing to convert the RST into a value added tax structure and combine it with the federal GST to create a federally administered single sales tax effective July 1, 2010.

The combined tax rate would be 13%. The provincial portion would be 8% – the same as the existing general RST rate – and the federal portion would be 5%.

To simplify its administration, the single sales tax would generally apply the same rules and the same tax base as the federal GST. This would significantly reduce the administrative burden on businesses that currently must comply with two separate sets of tax rules.

Thus, the rules on the input tax credits and on the notion of the small supplier (\$30,000) will apply the same way they do for the GST.

In addition, most financial services will be exempt from the GST; therefore, input tax credits could not be claimed for those services.

Taxation DivisionTemporary Restrictions on Input Tax Credits

Large businesses (those with annual taxable sales in excess of \$10 million) would be unable to claim income tax credits in certain areas (for example: automobile, food and entertainment, electricity). These restrictions, which are similar to those that apply to input tax credits in Québec, would be temporary and would apply during the initial implementation of the single sales tax only to the provincial portion of the tax. After 5 years, the province would gradually withdraw the restriction on input tax credits over a period of 3 years.

New Housing Rebate

The government is proposing the creation of a new housing rebate equivalent to 75% of the provincial portion of the tax (or 6% of the purchase price) in the case of residences under \$400,000, and which would be lower in the case of new homes priced between \$400,000 and \$500,000.

Just as for the purposes of the GST, the single sales tax would not apply to resale homes.

Private Transfers of Motor Vehicles

Ontario would continue to levy a sales tax on private transfers of used motor vehicles, similar to the tax collected in other provinces. This would help ensure a level playing field between used vehicles sold through dealerships and private sales of used vehicles.

Small Business Transition Support

Most businesses, other than financial institutions, with less than \$2 million in annual revenue from taxable sales would be eligible for a transition credit of up to \$1,000.

Note that Ontario currently compensates vendors for collecting and remitting the RST. The transition to the single sales tax would mark the end of that compensation to vendors, starting on April 1, 2010.

Exemptions

To provide targeted relief while maintaining the single administration of sales taxes collected in Ontario, the province would provide rebates for the provincial portion of the tax on items such as books, children's clothing and footwear, children's car seats and car booster seats, diapers and feminine hygiene products, through a point-of-sale rebate for the provincial portion of the tax. Retailers would maintain the right to claim input tax credits.

Public Service Organizations

To neutralize the net effect of the new tax, Ontario would offer reimbursements of its portion of the single sales tax to public service bodies (municipalities, hospitals, universities, colleges, school boards, charities and qualifying non-profit organizations).

Support for Tourism

The government currently collects a 5% RST on transient accommodation such as hotel rooms. Under the single sales tax, the provincial portion would increase to 8%. The additional income will be allocated to promoting Ontario's tourist regions once the tourism regions are established.

Maintaining Current Tax Levels on Certain Types of Insurance

The RST currently applies to premiums for some types of insurance such as group insurance. After the transition to the single sales tax, Ontario would retain a provincial sales tax of 8% on insurance products that are currently taxable. Automobile insurance premiums would continue to be exempt from sales tax.

Taxation DivisionMaintaining Current Levels of Revenue from Alcohol Sales

The province currently collects RST of 10% on alcohol beverages sold through licensed establishments and 12% on alcoholic beverages sold through retail stores. Under the single sales tax, the provincial rate on these products would fall to 8%. The government is proposing an adjustment to fees and levies currently collected on alcohol to enhance their operational structure and legislative clarity.

Additional Information

The government will publish additional information on technical design issues and transitional rules in the coming months to help taxpayers and businesses take the necessary measures to integrate the proposed changes. The government will also create an implementation panel to facilitate transition to the single sales tax.

Increasing Access to Locked-In Accounts

Starting January 1, 2010, the amount of money that can be unlocked after purchasing a new Life Income Fund (LIF) will increase from 25% to 50%. Holders of a new LIF will have the opportunity to withdraw an extra amount equivalent to 25% of the amount previously transferred to their existing LIF. The old LIFs and Locked-In Retirement Income Funds (LRIFs) would be changed to take the new rules governing LIFs into account.

Tax-Free Savings Accounts (TFSA)

The government is proposing to change the *Succession Law Reform Act (SLRA)* to allow for beneficiary designation on Tax-Free Savings Accounts (TFSA), as with RRSPs. This designation will mean that the TFSA would not be subject to Estate Administration Tax.

Measures for Concordance with the Federal Budget

- ✓ Home buyers' plan (HBP) withdrawal limit increased to \$25,000.
- ✓ Possibility to deduct the amount of post-death decreases in the value of an RRSP or RRIF from the income of a deceased annuitant.
- ✓ Deduction for a 100% accelerated capital cost allowance for computers acquired after January 27, 2009 and before February 2011.

Pension Reform

In the context of pension reform, the government is proposing temporary solvency funding relief retroactive to September 30, 2008. Thus, a pension plan administrator would be able to elect to:

- ✓ Consolidate existing solvency payment schedules in order to establish a new 5-year payment schedule.
- ✓ Defer the start of new going concern solvency special payments identified in the valuation report, for one year from the valuation date.
- ✓ Subject to consent of the plan beneficiaries, extend the solvency payment schedule to a maximum of 10 years if the report shows a new solvency deficiency.

In addition, to protect benefits security, contribution holidays would not be permitted in fiscal years ending in 2010 to 2012, except under certain conditions.

MEASURES AFFECTING INDIVIDUALS

Personal Income Tax Relief

In 2010, personal income tax will be reduced as follows:

Taxable Income ¹	Current (2009)	Proposed (2010)
\$0–\$36,848	6.05	5.05
\$36,848–\$73,698	9.15	9.15
> \$73,698	11.16	11.16

¹ Taxable income thresholds would be adjusted in 2010 and future years to reflect Ontario inflation.

Since most non-refundable tax credits in Ontario are calculated by multiplying a credit amount (for example, the Basic Personal Amount) by the amount of the first tax rate, the calculation of these non-refundable credits as well as the first \$200 of qualifying charitable donations would be adjusted so that the amounts of those credits are multiplied by 5.05%. In addition, the calculation of the Ontario minimum tax would be adjusted accordingly.

In 2009, Ontario levies a 20% surtax on basic Ontario tax over \$4,257 and a 36% surtax on basic Ontario tax over \$5,370. Starting in 2010, these thresholds will be lowered to \$3,978 and \$5,091 respectively.

Ontario Dividend Tax Credit

The tax credit¹ on dividends from Canadian corporations are changed as follows, according to the proposed corporate income tax cuts:

	Current		Proposed 2010 ²
	2009	2010 ²	
Eligible Dividends (generally those paid by large corporations)	7.4	7.7	6.4
Other than Eligible Dividends	5.13	5.13	4.5

¹ Rate applied to taxable amount of dividends.

² Effective January 1, 2010.

Ontario Sales Tax Transition Benefit

In order to enable smooth transition to the new sales tax system, there will be benefits for eligible taxpayers, aged 18 and over. This tax relief is established as follows:

Payment Month	Single Individuals		Single Parents or Couples	
	Maximum Benefit	Phase-out Range	Maximum Benefit	Phase-out Range
June 2010	\$100	\$80,000–\$82,000	\$330	\$160,000–\$166,600
December 2010	\$100	\$80,000–\$82,000	\$335	\$160,000–\$166,700
June 2011	\$100	\$80,000–\$82,000	\$335	\$160,000–\$166,700
Total	\$300		\$1,000	

Sales Tax Credit

The budget proposes a new ongoing sales tax credit in the form of advance payments that would replace the current credit, provided through the property and sales tax credits. The new sales tax credit would be refundable and paid quarterly, starting in July 2010.

The new sales tax credit would provide annual relief of up to \$260 per adult and each child. It would be reduced by 4% of adjusted family net income over \$20,000 for single individuals and over \$25,000 for families.

Property Tax Credit

The property tax credit would be replaced by a new refundable property tax credit for low-to-middle income homeowners and tenants. The tax credit would be based on occupancy cost – that is, property tax paid or 20% of rent paid. It would amount to 10% of occupancy cost + \$625 for seniors or \$250 for non-seniors. The amount of the credit would not exceed \$1,025 for seniors or \$900 for non-seniors and could not exceed occupancy cost. It would then be reduced by 2% of adjusted family net income in excess of \$20,000 for single individuals and \$25,000 for families.

Increased Senior Homeowner's Property Tax Grant

The maximum amount of the Senior Homeowner's Property Tax Grant will double from \$250 to \$500, starting in 2010.

Strengthening the Pension System

The government proposes a number of measures to strengthen Ontario pension systems, intended mainly to:

- ✓ Simplify and clarify pension rules applicable to the distribution of benefits in the case of marriage breakdown.
- ✓ Permit plan administrators to offer phased retirement to workers. This would allow members of retirement age to continue working while receiving a pension and continuing to accrue pension benefits.

MEASURES AFFECTING CORPORATIONS

The following measures, described above for Desjardins, also apply to other companies:

- ✓ Corporate income tax rate cuts.
- ✓ Reform of retail sales tax.
- ✓ Reform of pension plans.

Deduction for Accelerated Depreciation

The measure announced for Desjardins with respect to the accelerated depreciation for buying computers and software also applies to other companies.

In addition, Ontario is harmonizing with the federal measure that provides for manufacturing and processing companies to benefit from a temporary deduction for accelerated depreciation at a rate of 50%, calculated according to the linear method for assets acquired in 2010 and 2011. However, a 25% rate (half-year rule) will apply in the year of acquisition.

More Flexible Innovation Tax Credit

The Ontario Innovation Tax Credit will be extended to more small and medium-sized corporations by bringing the taxable income phase-out range of \$400,000 to \$700,000 to a new phase-out range of \$500,000 to \$800,000. This measure would parallel the federal Investment Tax Credit for research proposed in the 2009 federal budget.

Enhanced Training Tax Credit

With respect to eligible expenses incurred after March 26, 2009, the tax credit rate for cooperative education would rise from 10% to 25% (15% to 30% for small businesses) and the maximum amount granted would increase from \$1,000 to \$3,000 per work placement.

Furthermore, the Apprenticeship Training Tax Credit will increase from 25% to 35% (30% to 45% for small businesses) and the annual maximum amount will rise from \$5,000 to \$10,000. These measures will also apply to eligible expenses also incurred after March 26, 2009. In addition, the credit is now a permanent tax incentive.

A Few Other Measures

- ✓ The 35% Ontario Film and Television Tax Credit rate is now permanent.
- ✓ Permanent enhancement of the Production Services Tax Credit at 25%.
- ✓ Increase from 30% to 40% of the credit to corporations for expenditures related to the creation and marketing of their own products, regardless of size, and from 25% to 35% for companies that develop products under a fee-for-service arrangement for the purposes of the Interactive Digital Media Tax Credit.
- ✓ Increase eligible labour expenditures incurred after March 26, 2009 and expand the eligibility criteria for the purposes of the Computer Animation and Special Effects Tax Credit.
- ✓ Starting on March 27, 2009, expand the eligibility criteria for an unlimited number of works by a Canadian author for the purposes of the Book Publishing Tax Credit.

ONTARIO: BUDGET 2009-2010

A long string of deficits...

The government opts for infrastructure modernization and more competitive taxation

Like most governments, the current crisis is hitting Ontario's bottom line hard. No one will be very surprised by the record \$14.1B deficit for 2009-2010, but most people will be disappointed to see the deficits last until 2014-2015, for seven consecutive years. Getting back to balance in 2015-2016 will be a long, arduous process, but harmonizing the sales tax with the federal goods and services tax (GST) is an excellent initiative for helping to get there, as it makes the economy more competitive. The big \$5.1B jump in infrastructure spending in 2009-2010 from the previous year will soften the economy's pullback.

Table 1
Summary statement of transactions

En G\$	Actual		Projection						
	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Total bud. revenues	97.1	93.4	96.0	103.6	104.4	109.3	114.3	119.6	125.2
- Variation (%)	7.4	-3.8	2.8	7.9	0.8	4.7	4.6	4.6	4.7
Program spending	-87.6	-88.5	-99.6	-104.7	-101.9	-104.2	-106.6	-109.0	-111.5
- Variation (%)	10.5	1.0	12.5	5.1	-2.7	2.3	2.3	2.3	2.3
Debt charges	-8.9	-8.9	-9.3	-9.9	-11.1	-11.6	-12.0	-12.2	-12.2
- Variation (%)	1.1	0.0	4.5	6.5	12.1	4.5	3.4	1.7	0.0
Reserve	---	---	1.2	1.2	1.2	1.5	1.5	1.5	1.5
Budgetary balance	0.6	-3.9	-14.1	-12.2	-9.7	-8.0	-5.8	-3.1	0.0
- In % of GDP	0.1	-0.7	-2.5	-2.1	-1.6	-1.3	-0.9	-0.4	0.0
Net debt	142.4	149.4	169.8	189.5	205.4	n.a.	n.a.	n.a.	n.a.
- In % of GDP	24.3	25.1	29.2	33.3	34.4	---	---	---	---

n.a.: not available

Sources: Ontario Ministry of Finances and Desjardins, Economic Studies

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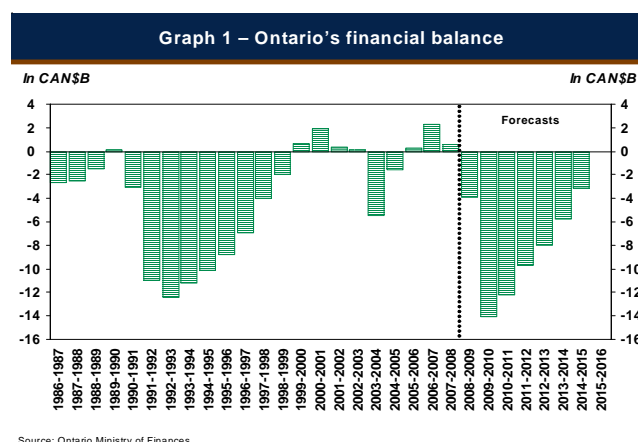
RECORD BUDGET DEFICITS

Unsurprisingly, the Ontario government’s operating budgets are really feeling the lash of the ongoing recession. A deficit of \$3.9B is now projected for the year ending next March 31. Yet last year’s budget had called for a balanced budget, as well as putting aside a \$750M reserve for contingencies. Given how much economic conditions have deteriorated, the reserve has been much too small to keep the budget in balance.

The outlook for the next few years is worse. A record \$14.1B deficit is projected for 2009-2010 due to rapid program spending growth (+12.5%), which, in and of itself, is a good thing during a recession. The deficit could total \$12.2B in 2010-2011 and \$9.7B in 2011-2012. In all, the combined deficit will total almost \$57B from 2008-2009 to 2014-2015 (graph 1).

The budget is not expected to get back into balance until 2015-2016. To achieve this, the Ontario government is relying on a fairly vague plan that includes tight control over program spending growth. This is a big challenge and we may well wonder about the likelihood that the budget will be back in balance in such a period of time. The Ministry of Finance is giving itself some leeway, with an annual reserve of \$1.2B into 2011-2012 and \$1.5B for subsequent years. Moreover, a \$3.4B contingency fund (for operations and capital spending) is planned for 2009-2010.

The colossal budget deficits will, of course, have an impact on the province’s debt load. Net debt, which totalled \$142.4B on March 31, 2008, will jump to \$205.4B on March 31, 2012. As a percent of real GDP, it will go from 24.3% to 34.4% during this period. Despite the increase, the ratio is still lower than those of most other provinces.



Source: Ontario Ministry of Finances

THE ECONOMY COULD RECOVER LATER

Ontario’s Ministry of Finance has sharply downgraded its economic forecast since last year’s budget (table 2). While last year’s budget projected a 2.1% increase in real GDP for 2009, the projections presented today feature a 2.5% contraction. The downturn in the economic outlook is, of course, due to the global recession’s impact on Ontario’s exports, structural and cyclical problems in the automobile industry and flagging domestic demand. Moreover, consumer spending and residential investment have nosedived in the last few months.

Finance Minister Dwight Duncan is still confident that the ongoing recession will be a fairly short one. An improvement in the global situation and, in particular, an economic recovery in the United States should pave the way for Ontario’s economy to recover as of mid-2009. The Ministry of Finance is thus calling for real GDP to expand by 2.3% in 2010. Its hypothesis of an economic recovery in the second

Table 2
Economic and financial forecasts

Variation in %	2008			2009f			2010f		
	Budget 2008	Budget 2009	Desjardins Group	Budget 2008	Budget 2009	Desjardins Group	Budget 2008	Budget 2009	Desjardins Group
Real GDP	1.1	-0,4 ^e	-0,1 ^e	2.1	-2.5	-3.3	2.7	2.3	1.0
Nominal GDP	2.8	1,7 ^e	1,7 ^e	3.9	-2.4	-5.9	4.6	3.6	1.6
Employment	1.0	1.4	1.4	1.1	-2.0	-3.1	1.3	0.8	-1.3
U.S. real GDP	1.7	1.1	1.1	2.6	-2.6	-2.7	2.8	1.9	1.2
Canadian dollar (US¢)	100.0	93.7	93.7	98.0	80.0	83.0	98.0	85.0	94.0
Treasury bills – 3-month	3.3	2.3	2.3	3.8	0.6	0.5	4.5	1.1	0.7
Federal bonds – 10-year	3.9	3.6	3.6	4.5	2.9	2.8	5.2	3.3	3.3

e: estimates; f: forecasts

Sources: Ontario Ministry of Finances and Desjardins, Economic Studies

half of 2009 is optimistic, however. It will take some time for the many imbalances seen almost worldwide to resolve. March will be over in just a few days, meaning that it is only three months until mid-2009. The economic situation does not appear to be about to improve substantially. Of course, there has been some good news about the economy in the last few days, but the overall trend is still sharply downward.

In this context, most analysts are anticipating much bigger contractions by the Canadian and Ontario real GDPs in early 2009. Moreover, the correction in business inventories has not yet really gotten underway here. As is systematically true during recessions and sharp economic slowdowns, we can expect business inventories to fall substantially over the next few quarters, with a sizeable downside impact on real GDP throughout 2009. This is why we believe the recession will last until the end of the year. Our forecast for real GDP is therefore lower than the one the Ministry of Finance used. We expect real GDP to shrink by 3.3% in 2009 and then edge up by a modest 1.0% next year. And we are not the only forecasters to be this pessimistic. Other financial institutions that recently updated their scenarios are forecasting economic growth of about 1% for 2010. It is very likely that other bodies will also downgrade their outlooks in the weeks to come.

Slower real GDP growth could result in a smaller increase in revenues and greater spending growth. The budget deficits could clearly be bigger than forecast. A drawn out recession will also make prices rise less rapidly. This will have an impact on budget operations and could deepen the deficits. The Ministry of Finance has given itself some financial leeway by using a reserve and contingency funds, which should allow it to eventually handle greater deterioration in economic conditions.

RECOVERY PLAN IS PRIMARILY BUILT ON INFRASTRUCTURES

Earlier this week, the Ontario government had announced that it would be making massive investments in infrastructures. Over the next two years, spending in this area will total \$27.5B, with \$12.7B in 2009-2010 and \$14.8B in 2010-2011. The federal government will add an additional \$5B, resulting in a direct injection of \$32.5B into Ontario's economy. In proportion to its population, this amount is comparable to the Québec government's Infrastructure Plan. The Ontario will thus boost its infrastructure investments by 66.9% (\$5.1B more than last year) and 16.2% (\$2.1B) respectively over the next two fiscal years (table 3).

This is good news for Ontario's economy—infrastructure spending is very effective at stimulating the economy. The problem is that it sometimes takes a long time to get this type of project off the ground. On the other hand, there is almost no leakage and such spending has substantial multiplier effects. However, the recovery plan essentially stops there. Aside from an additional \$700M investment to encourage worker training, creation of a \$300M fund for investing in green energy and \$130M to support agriculture, mining and forestry, there is not much in the budget to kick start the economy.

This effort will probably not be enough to secure a recovery, but it will provide substantial support to keep the economy from slumping further. Ontario is therefore hoping that the efforts deployed by other governments, especially the Obama plan and the federal government, will have positive effects on the economy. Today's announcements, which our economic scenario has already largely taken into account, will not prompt us to revise our forecasts.

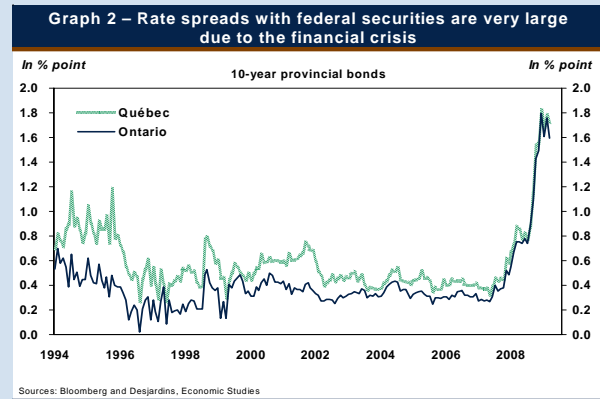
Table 3
Infrastructure expenditures

	2008-2009	2009-2010	2010-2011
In \$M			
Transportation	3,197.8	4,228.5	4,814.0
Health	2,078.7	3,177.4	3,912.3
Education	1,740.2	1,849.1	1,928.9
Other	1,519.7	6,340.7	7,325.2
Total	8,536.3	15,595.7	17,980.3
<i>Less: Flow-Throughs and Other Partner Funding</i>	921.9	2,891.0	3,219.2
Total provincial expenditure	7,614.4	12,704.7	14,761.1

Sources: Ontario Ministry of Finances and Desjardins, Economic Studies

Impacts on the financial markets

Ontario’s budget will probably not completely reassure investors who are concerned about the deterioration in public finances. Substantial deficits were fully expected in the near term, but the fact that the budget is only forecast to be balanced in 2015-2016 is a concern, especially as the financial plan is not currently very convincing. Sizeable deficits and over \$30B in infrastructure investments will lead to a substantial jump in the debt and Ontario bond issues. Long-term borrowing requirements for the next few years have thus jumped by about \$15B a year from the levels forecast in last year’s budget. Luckily, Ontario has some leeway, thanks to its reserves and a relatively low debt-to-GDP ratio.



At first glance, the outlook for Ontario bonds is not very good. The big increase in issues and deterioration in the province’s economic and financial situation are negative factors for these securities. Close attention will have to be paid to how credit rating agencies respond—they could deem that the plan to get the budget back in balance is inadequate. However, the situation for many other issuers is similar to Ontario’s. Moreover, rate spreads with federal bonds are already very large due to the financial crisis. Despite Ontario’s difficulties, spreads could narrow over the next few months if the strains in the credit market ease.

Table 4
Some elements that are affecting the offer of Ontario bonds

	2009-2010	2010-2011	2011-2012
In \$B			
Deficit / (surplus)	14.1	12.2	9.7
Investments in property, plant and equipment	9.5	11.4	10.4
Maturing debt	14.6	15.7	16.7
Total financing requirements	38.5	37.3	34.1
Total long term public borrowing requirements	34.8	34.3	32.1

Source: Ontario Ministry of Finances

AFTER 18 YEARS, THE SALES TAX WILL BE HARMONIZED!

Starting July 1, 2010, subject to the approval of the Legislative Assembly, Ontario’s sales tax will be harmonized with the federal GST. The combined rate of the new single tax will be 13%. The province’s portion will be 8%, while the federal government gets 5%. The initiative is a step in the right direction to make the economy more competitive, especially as it comes with cuts to personal and business taxes. In a period when labour is scarce, it is critical to institute measures to encourage people to stay in the labour force. A decline in the tax on work is in line with this; the lost revenues will be offset by an increase in the tax on

consumption, which encourages saving. Moreover, during an economic slowdown, the revenues from the tax on consumption will probably not be as adversely affected as the revenues from personal tax.

The major change in Ontario’s tax structure will only go into effect halfway through 2010, after the economic recovery is better entrenched. The public will also have time to get ready for the shock. For fiscal 2010-2011 and 2011-2012, the Ontario government will boost its revenues from the sales tax by \$8.7B (from the revenues for fiscal 2009-2010). To offset the new tax, personal income tax will be reduced by \$10.6B over three years. The cuts include cash

payments of up to \$1,000 per family in 2010 and 2011, for a total of \$4B in redistributions to 6.5 million families.

A permanent refundable tax credit of \$260 and a bigger property tax credit will also come with the sales tax, for low- and middle-income people. There will also be permanent cuts of \$1.1B to personal income tax for the first income bracket. Finally, business taxes have also been cut by \$4.5B over three years. Note, too, that Canada and Ontario have entered into an agreement under which the federal government will give the province \$4.3B in transfer payments to support economic growth and help in the transition to the value-added tax.

MUCH REMAINS TO BE DONE

Over the next two years, the Ontario government will try to get through the crisis without too much damage. To try to cushion the economy's already brutal nosedive, it is injecting money directly into the economy through investments in infrastructure. The deficits and debt will absorb the blows. The debt-to-GDP ratio will go from 25.1% in 2008-2009 to 33.3% in 2009-2010.

Harmonizing the sales tax with the GST lays the groundwork for a more competitive economy. However, the government is still rather vague about the steps to take to eliminate the budget deficits in the next few years. Seven deficits in a row is a long series, especially when there could be another crisis in the meantime. The government is grappling with a structural deficit, not simply a cyclical deficit. Ontario's economy will also have to cope with profound restructuring, as the automobile industry's adjustment problems have not gotten any smaller.

Eliminating a structural deficit requires concrete action on revenues and the structure of spending. Under the circumstances, the government will no doubt overhaul its methods and the delivery of services to the general public. Decisions will have to be made and, like everywhere else around the world, they will probably be painful ones.