

Ontario doesn't bite on corporate tax cut

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TORONTO — Ontario tabled a budget yesterday that thumbed its nose at Jim Flaherty and his corporate-tax-cut agenda, instead preferring a smattering of smaller measures that offers some modest near-term help for the province's manufacturers and not much at all for other businesses.

The tight budget, which shows increases of just 0.4 per cent in revenue and just 0.2 per cent in spending for the 2008-09 fiscal year, didn't include any reduction in Ontario's general corporate income tax rate of 14 per cent – which is higher than every province except Nova Scotia and Prince Edward Island.

Mr. Flaherty, the federal Finance Minister who once held the same job in Ontario, has spent recent weeks loudly calling for Ontario to lower the rate to 10 per cent by 2012. But the Ontario government had made it clear it didn't favour such a move, which would cost the province \$2.3-billion in annual lost revenue.

Instead, provincial Finance Minister Dwight Duncan unveiled a series of more targeted business tax breaks totalling \$750-million over the next four years, including further relief on capital taxes, an extension of the accelerated depreciation allowances on manufacturing machinery and equipment, and a 10-year tax exemption for new companies commercializing innovations coming out of Canadian universities and research institutes.

The budget also includes job training funding that will go directly to the auto sector, and regulatory changes that will simplify Ontario tax legislation and cut \$100-million in administrative costs for business taxpayers.

“Over all, we think the budget will help manufacturers deal with the immediate challenges,” said Ian Howcroft, Ontario vice-president of Canadian Manufacturers & Exporters, pointing to the emphasis on skills training and the extension of the accelerated depreciation. He said manufacturers would have welcomed more corporate tax cuts but, on balance, the budget will help a sector that has been battered by the surge in the value of the Canadian dollar.

The government's political opponents were far less charitable in their assessment.

“If you look at this budget, it's as if manufacturing doesn't matter a whit,” said New Democratic Party Leader Howard Hampton.

“The tiny tax changes that [Ontario Premier Dalton] McGuinty put forward in this budget will not change the fact that he is imposing the highest taxes on business and jobs anywhere in Canada,” said Pierre Poilievre, a Conservative federal member of Parliament who represents a suburban Ottawa riding.

The balanced budget also avoided taking on a deficit in order to provide stimulus to the Ontario economy, which the provincial government now predicts will grow 1.1 per cent in 2008 – down from the 1.8 per cent the province had projected in its economic and fiscal update in December. Most economists were encouraged by the balanced books, saying that past Ontario attempts to spend its way out of recessions proved ineffective and even counterproductive.

“I'm glad they didn't suddenly decide that they're going to fix the world economy by taking on a deficit in Ontario,” said Finn Poschmann, director of research at economic think tank C.D. Howe Institute.

The greatest help to struggling sectors comes from the province's decision to make its elimination of the capital tax for manufacturing and resource companies retroactive to Jan. 1, 2007. The move will result in \$190-million in tax rebates almost immediately.

Companies pay capital tax based on their size, regardless of whether they are profitable. Mr. Duncan stressed that the capital-tax break delivers money to the companies that need it the most – money-losing manufacturers. “That capital tax is going to apply to you – you'll get that money,” he said.

Ontario matched the provision in the federal government's budget last month to extend to the end of 2011 the 50-per-cent acceleration of depreciation for manufacturers' purchases of machinery and equipment. The measure will cost an estimated \$427-million in lost revenue over the next three years.

The centrepiece of the budget document – the \$1.5-billion job training plan – includes \$53-million from the 2007-08 budget year to go directly to company-run training programs in the auto sector. This includes \$25-million for the Yves Landry Foundation, a private industry-education partnership; \$22.8-million for Toyota's Canadian training and research centre in Cambridge; and \$5.6-million for Chrysler Canada's training programs in Brampton, Toronto and Windsor.

With files from reporters Greg Keenan in Toronto and Kevin Carmichael in Ottawa.

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