



## **INSIDER**

### **BUDGET EDITION**

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## **ONTARIO BUDGET FAILS TO SUPPORT HOSPITALITY AND TOURISM INDUSTRY**

The Ontario Restaurant Hotel & Motel Association (ORHMA) today raised alarm bells to government that the 2009/10 provincial budget has not only ignored the economic reality faced by hospitality and tourism operators but proposes policies that may be harmful to some segments of the industry. Please note that within the coming days the ORHMA will be issuing a public response to the budget outlining specific concerns.

Ontario's Minister of Finance, Dwight Duncan, today announced the provincial budget for 2009/10 fiscal year. The budget is positioned by the government as a stimulus package to "create jobs now and prepare for future growth". Key planks of the budget include harmonization of the GST and provincial retail sales tax, investments in infrastructure and supports to reduce poverty.

Of particular interest for the foodservice and accommodations industry:

### **State of the Economy**

The government has reported total expenditures of \$97.3B for 2008/09, with revenues of \$93.4B, leaving a deficit of \$3.9B.

Expenditures for 2009/10 are projected at \$108.9B, with revenues of only \$96B, and a deficit of \$14.1B.

Government revenues from LCBO in 2009/10 are projected to decline from \$1.41B to \$1.32B in 2008/09.

Revenues from Liquor Licence Revenues are projected to hold stable at \$457M in 2009/10 from \$458M in 2008/09.

Ministry of Tourism budget is projected to increase from \$183.4M to \$216.4M.

Retail sales tax revenues are projected to increase from \$174.5B to \$176B.

### **Tax Harmonization**

The Government of Ontario has signed a Memorandum of Agreement with the Federal Government to harmonize the GST and RST and introduce a single value-add tax of 13%, effective July, 2010. It is projected that businesses will realize a savings of \$500M annually in compliance costs.

Tax harmonization policies will be negotiated and rolled out over a 15 month period. Additional information on technical design issues and transitional rules will be released in the coming months to help taxpayers and businesses prepare for the proposed changes. The government will also establish an implementation panel to assist with the transition to the single sales tax.

**The ORHMA has already raised concerns with government officials, including the Premier's Office, about the impact harmonization will have on the hospitality and tourism industry. We will continue to update members as discussions progress.**

Impacts of harmonization for the industry:

- ***Food Sales***

Under harmonization only certain current RST exemptions related to children's goods will be preserved, meaning an end to the current RST exemption on meals under \$4, effective July 2010.

- ***Beverage Alcohol***

RST is currently collected on alcoholic beverages sold through licensed establishments at the rate of 10% and on alcoholic beverages sold through retail stores at the rate of 12%. Under the single tax the provincial rate on beverage alcohol will fall to 8%. To maintain social responsibility and existing revenue, while introducing the new single sales tax, the government proposes to make adjustments to current alcohol fees, levies and charges. Further, the government also proposes to introduce legislation to replace various alcohol and other fees, levies and charges with taxes to enhance their operational structure and legislative clarity.

- ***Tourism***

It is proposed that the current 5% provincial sales tax rate on transient accommodation, including hotel rooms, will rise to 8%. Approximately \$40M of annual net revenue associated with the difference in rates would be allocated to destination marketing in Ontario tourism regions, once these are established.

- ***Supports for Business***

To support small business the government has proposed a \$400M one-time small business transition credit. Businesses with less than \$2M in annual revenue from taxable sales would be eligible for a one-time transition credit of up to \$1000.

Businesses selling taxable or zero-rated goods and services would be able to claim input tax credits on their purchases, as under the federal GST, with limited exceptions. The budget proposes temporary restrictions on input tax credits for large businesses, those with annual taxable sales of \$10M, which would temporarily be unable to claim input tax credits in certain areas, including food and beverage, on the provincial portion of the tax. After the first five years of single sales tax implementation, full input tax credits on their taxable supplies would be phased in over a 3 year period.

## **Tourism**

The budget allocates \$41M over 3 years to enhance Ontario attractions, including \$33M for revitalization projects associated with Huronia Historical Parks and the St. Lawrence Parks Commission, and \$8M for infrastructure at Fort William Historical Park.

## Corporate Taxation

The budget proposes a \$4.5B package of corporate tax relief measures for businesses, including:

- reducing the tax rate for small business from 5.5% to 4.5%, effective July 1, 2010;
- cutting general Corporate Income Tax from 14% to 12% by July 1, 2010 and to 10% in 2013;
- eliminating the Corporate Income Tax small business deduction surtax, effective July 1, 2010;
- exempting more small and medium-sized businesses from the Corporate Minimum Tax and cutting the rate for large businesses from 4% to 2.7% effective July 1, 2010; and
- eliminating the small business surtax.

## Other

Minimum wage rates will increase on March 31, 2009, in accordance with the previously announced schedule of increases.

<b>Minimum Wage Rate</b>	<b>March 31, 2009</b>	<b>March 31, 2010</b>
<b>General Minimum Wage</b>	\$9.50 per hour	\$10.25 per hour
<b>Student Minimum Wage</b>	\$8.90 per hour	\$9.60 per hour
<b>Liquor Servers Minimum Wage</b>	\$8.25 per hour	\$8.90 per hour

### **Questions, comments and concerns can be directed to:**

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