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Tax Alert – Canada

Ontario budget 2025-26

"We have a plan to protect workers, businesses and communities from U.S. tariffs and the economic uncertainty they have caused over the past weeks and months."

"We need to make bold, lasting change that makes Ontario the most competitive economy in the G7 to invest, create jobs and do business. We need to do it now."

"And we will do this while remaining fiscally responsible with a path to balance."

Ontario Finance Minister Peter Bethlenfalvy
2025-26 budget, Minister's Foreword

On 15 May 2025, Ontario Finance Minister Peter Bethlenfalvy tabled the province's fiscal 2025-26 budget. The budget contains some tax measures but contains no new taxes and no tax increases.

The minister anticipates a deficit of $14.6 billion for 2025-26 and $7.8 billion for 2026-27, before returning to a surplus position of $0.2 billion in 2027-28.

Following is a brief summary of the key tax measures.

Business tax measures

Corporate income tax rates

No changes are proposed to the corporate tax rates or the $500,000 small-business limit.

Ontario's 2025 corporate income tax rates are summarized in Table A.

Table A – 2025 Ontario corporate income tax rates[1]

	ON	Federal and ON combined
Small-business tax rate[2]	3.20%	12.20%
General manufacturing and processing tax rate[2]	10.00%	25.00%
General corporate tax rate[2,3]	11.50%	26.50%

[1] The rates represent calendar-year-end rates unless otherwise indicated.

[2] The federal corporate income tax rates for manufacturers of qualifying zero-emission technology are reduced to 7.5% for eligible income otherwise subject to the 15% federal general corporate income tax rate or 4.5% for eligible income otherwise subject to the 9% federal small-business corporate income tax rate. These reductions are not reflected in the combined federal and Ontario rates above.

[3] An additional federal tax applies to banks and life insurers at a rate of 1.5% on taxable income (subject to a $100 million exemption to be shared by group members).

Other business tax measures

In addition to a change to the small beer manufacturers' tax credit noted below under "Alcohol taxes, mark-ups and fees," the minister also proposed the following business tax measures:

- **Ontario-made manufacturing investment tax credit** – As previously announced on 5 May 2025, the budget proposes to enhance this credit, effective for eligible investments made on or after 15 May 2025 and before 2030. Specifically, the refundable investment tax credit rate, currently available to Canadian-controlled private corporations (CCPCs), will be increased from 10% to 15% on up to $20 million of eligible expenditures per taxation year. As a result, the maximum tax credit will increase from $2 million to $3 million per taxation year.

  In addition, the credit will be expanded to allow a 15% non-refundable credit for eligible investments in Ontario made by non-CCPCs (such as publicly traded companies) that have a permanent establishment in the province. The credit will apply for eligible investments made on or after 15 May 2025 and before 2030. Unused non-refundable credits may be carried forward for up to 10 taxation years. As with the refundable credit, the $20 million limit must be shared by an associated group of corporations and will be prorated for short taxation years.

The credit enhancement and expansion will both be included in a bill to be introduced in the fall of 2025, following the release of the *2025 Ontario Economic Outlook and Fiscal Review*.

Proposals to enhance the credit's integrity and effectiveness are also introduced. Specifically, repayment of the credit will be required if a corporation claims the credit for eligible capital property and the property is later sold, converted to a non-manufacturing or processing use, or removed from Ontario within five years. These recapture rules apply to sales, conversions, or removals on or after 15 May 2025, and are included in the bill accompanying the budget (i.e., Bill 24, *Plan to Protect Ontario Act (Budget Measures), 2025* (Bill 24)).

For purposes of this credit, eligible expenditures include expenditures incurred to acquire certain capital property included in Class 1 or Class 53 (or Class 43(a) for property acquired after 2025) for capital cost allowance purposes, which will be used in M&P activities in Ontario (such as buildings and machinery and equipment). To be eligible for the credit, the property must also become available for use during the effective period.

- **Ontario shortline railway investment tax credit –** Ontario is introducing a 50% refundable corporate income tax credit for certain capital and labour expenditures for railway-related maintenance. The credit will be limited to $8,500 per track mile in Ontario and will be available for eligible expenditures incurred on or after 15 May 2025 and before 2030. Qualifying corporations must have a permanent establishment in Ontario and be licensed provincially under the *Shortline Railways Act* (Ontario) or federally (Class II & III) under the federal *Railway Safety Act*.

  Eligible expenditures include capital investments in Ontario for certain railway-related capital property included in Class 1 (expenditures for maintenance of railway track, and bridges, tunnels, and other structures ancillary to the railway), Class 3 (expenditures for shortline railway trestles) or Class 13 (certain railway-related leasehold improvements or alterations) for capital cost allowance purposes. Eligible expenditures also include labour expenditures that are directly related to railway track maintenance, provided the expenditures are to individuals who are residents of Ontario for work performed in Ontario.

  This measure will be included in a bill to be introduced in the fall following the release of the *2025 Ontario Economic Outlook and Fiscal Review*.

Personal tax

Personal income tax rates

The budget does not include any changes to personal income tax rates.

The 2025 Ontario personal income tax rates are summarized in Table B.

Table B – 2025 Ontario personal income tax rates[1,2]

First bracket rate[3]	Second bracket rate	Third bracket rate	Fourth bracket rate	Fifth bracket rate
$0 to $52,886	$52,887 to $105,775	$105,776 to $150,000	$150,001 to $220,000	Above $220,000
5.05%	9.15%	11.16%	12.16%	13.16%

[1] In addition, for 2025, a 20% surtax applies to basic Ontario tax in excess of $5,710, and an additional 36% surtax applies to basic Ontario tax in excess of $7,307.

[2] Individuals resident in Ontario on 31 December 2025 with a combined taxable and split income in excess of $20,000 must pay the Ontario Health Premium. The premium ranges from $nil to $900 depending on the individual's taxable income, with the top premium being payable by individuals with a combined taxable and split income in excess of $200,599.

[3] Individuals resident in Ontario on 31 December 2025 with taxable income up to $18,569 pay no provincial income tax as a result of a low-income tax reduction. The low-income tax reduction ($294 of Ontario tax) is clawed back for income in excess of $18,569 until the reduction is eliminated, resulting in an additional 5.05% of provincial tax on income between $18,570 and $24,391.

For taxable income in excess of $177,882, the 2025 combined federal–Ontario personal income tax rates are outlined in Table C.

Table C – Combined 2025 federal and Ontario personal income tax rates

Bracket	Ordinary income[1]	Eligible dividends	Non-eligible dividends
$177,883 to $220,000[2]	48.29%	32.11%	41.71%
$220,001 to $253,414[2]	49.85%	34.26%	43.50%
Above $253,414	53.53%	39.34%	47.74%

[1] The rate on capital gains is one-half the ordinary income tax rate.

[2] The federal basic personal amount comprises two elements: the base amount ($14,538 for 2025) and an additional amount ($1,591 for 2025). The additional amount is reduced for individuals with net income in excess of $177,882 and is fully eliminated for individuals with net income in excess of $253,414. Consequently, the additional amount is clawed back on net income in excess of $177,882 until the additional tax credit of $239 is eliminated; this results in additional federal income tax (e.g., 0.32% on ordinary income) on net income between $177,883 and $253,414.

Other personal tax measures

The budget proposes the following personal tax changes:

- **Fertility treatment tax credit** – As previously announced and included in the *2024 Ontario Economic Outlook and Fiscal Review* delivered on 30 October 2024, Ontario is introducing a 25% refundable tax credit for eligible fertility treatment expenses, effective for 2025 and later taxation years. This credit, which builds on the province's existing medical expense tax credit, will cover up to $20,000 in annual eligible expenses, resulting in a maximum annual credit of $5,000. Individuals may claim this credit in addition to the non-refundable federal and Ontario medical expense tax credits for the same eligible expenses.

Eligible expenses must be paid by the individual or the individual's spouse or common-law partner in respect of goods and services provided in Canada for the purpose of conceiving a child, or for certain medical expenses paid to or on behalf of a surrogate mother. Eligible expenses include certain amounts paid to a medical practitioner or a public or private hospital, fertility clinic or donor bank in Canada, costs relating to reproductive technology processes, including costs for egg and embryo freezing (including storage), fertility medications, and travel for treatment, subject to certain conditions.

Other tax measures

Gasoline and fuel tax

As previously announced on 13 May 2025, the budget will make the reduced gasoline and fuel tax rates permanent. Since 1 July 2022, Ontario has reduced the gasoline tax rate from 14.7¢ per litre to 9.0¢ per litre and the clear fuel (diesel) tax rate from 14.3¢ per litre to 9.0¢ per litre. The reduced gasoline and fuel tax rates were previously scheduled to end after 30 June 2025.

The budget is also eliminating the tax on propane used in licensed road vehicles, effective 1 July 2025. The Ministry of Finance will provide related guidance to propane tax collectors and businesses in the coming weeks.

Alcohol taxes, mark-ups and fees

In accordance with its ongoing review of Ontario's alcohol taxes, mark-ups and fees, the government will make the following changes, effective 1 August 2025, to support consumer affordability and encourage a more dynamic and competitive alcohol marketplace:

- The spirits basic tax applicable to spirits made by Ontario spirits manufacturers and sold from distillery retail stores in the province will be reduced from 61.5% to 30.75%.
- The beer basic tax rates applicable to beer made by Ontario microbrewers will be reduced from 35.96¢ per litre to 17.98¢ per litre for draft beer, and from 39.75¢ per litre to 19.88¢ per litre for non-draft beer. As a transitional measure, where beer was received by a collector before August 2025 and then sold to a purchaser after that date, the basic tax payable by the purchaser would be calculated at the basic tax rate in effect on 31 July 2025. A directive will be issued to require the Liquor Control Board of Ontario (LCBO) to reduce its mark-ups to match the tax rate reductions.
- The basic LCBO mark-up rate for cider will be reduced from 60.6% to 32%, which will bring the rate more in line with the microbrewer basic mark-up rate.
- The basic LCBO mark-up rates applicable to wine-based ready-to-drink (RTD) beverages that do not have an alcohol content exceeding 7.1% will be reduced from 60.6/64.6% to 48.0%, and the mark-up rates applicable to spirit-based RTD beverages that do not have an alcohol content exceeding 7.1% will be reduced from 68.5/96.7% to 48.0%.

Currently, a person cannot qualify as a microbrewer for a given sales year if, in the previous production year, another brewer that is not a microbrewer makes beer for the microbrewer, or if their annual worldwide production of beer in the preceding production year exceeds 49,000 hectolitres. Ontario is proposing to allow an Ontario microbrewer to retain microbrewer status if it contracted with another brewer that is not a microbrewer to produce beer for the microbrewer, provided the microbrewer makes commercial quantities of beer for sale in Ontario at a qualifying beer manufacturing facility in Ontario. This change would come into force when the implementing legislation (i.e., Bill 24) receives Royal Assent. A five-year average rule is also introduced to determine qualification for microbrewer status. Specifically, a person will qualify as a microbrewer if the lesser of their average annual worldwide production of beer in the five previous production years and their annual worldwide production in the prior year does not exceed 49,000 hectolitres. This change would take effect on 2 March 2026.

The refundable small beer manufacturers' corporate income tax credit provided under the *Taxation Act, 2007* will be amended to reflect the new proposed beer basic tax rates for microbrewers, thereby providing relief to qualifying corporations for eligible sales occurring on or after 1 August 2025. Additional amendments will mirror the proposals for the new five-year average rule and contracting rules summarized above.

As well, Ontario announced amendments to the *Liquor Tax Act, 1996* to authorize the minister of finance to make regulations defining a new category of "alcohol refreshment beverages" and prescribing related tax rates. This category would generally include a ready-to-consume cooler, hard seltzer, or other premixed cocktail made from spirits, wine, beer or fermented sugar, or from any combination of the four that does not have an alcohol content exceeding 7.1%. It may also include other beverages that are otherwise taxable under the *Liquor Tax Act, 1996* if they do not have an alcohol content exceeding 7.1%.

Other technical amendments

Employer health tax

The budget proposes to amend the *Employer Health Tax Act* to allow notices of assessments to be sent by regular mail and electronically.

Learn more

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