1997 Ontario Budget

Investing in the Future

The Honourable Ernie Eves, Q.C.
Minister of Finance

Ontario

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Budget Papers

Investing in the Future

Presented to the

Members of the Legislative Assembly of Ontario by

The Honourable Ernie Eves, Q. C.

Minister of Finance

May 6, 1997

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Investing in the future

Under the leadership of Premier Mike Harris, our plan allows Ontarians to keep more of their hard-earned money; it invests in health care, classroom education and safe communities; it reduces the size of government and ensures that taxpayers' dollars are spent more wisely.

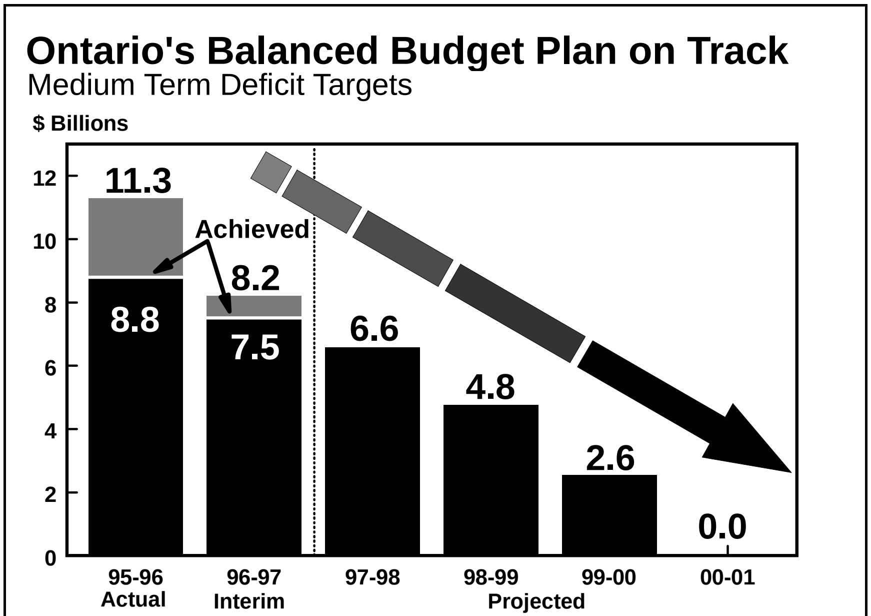
Our Government is turning the economy around. We recognize that all Ontarians deserve opportunity and a job, with the personal dignity and security that a job brings.

Ontario Finance Minister Ernie Eves

Balancing the Budget

The deficit for the fiscal year 1996-97 will be $7.5 billion, an improvement of $710 million over the 1996 Budget plan.

For the fiscal year 1997-98, our Budget plan projects a deficit of $6.6 billion. The deficit will be reduced further to $4.8 billion next year or some 58 per cent less than the deficit we faced on taking office.



Note: The potential deficit outlook as of June 1995 of $11.3 billion and the actual deficit of $8.8 billion in 1995-96 have been restated to reflect the reclassification of GO Transit and the Ontario Housing Corporation to government service organizations.

Our Balanced Budget Plan will ensure that the deficit is eliminated by the year 2000-01.

Once the budget is balanced, we will put in place a program to cut Ontario's debt to ensure that our children have the opportunities they deserve.

Ontario's Economy – Strong, and Getting Stronger

Ontario's economy is responding to the Government's plan to make Ontario, once again, a province of jobs and opportunity.

The housing market continues to strengthen and the number of housing starts is projected to rise by 29.1 per cent in 1997.

In March alone, the Ontario economy created 45,600 new jobs. Reflected in this increase is the largest monthly private sector job gain on record.

Private sector economists have identified the rising trends in consumer spending, housing activity, new orders and overtime activity as strong leading indicators of accelerating job growth.

The Royal Bank, for example, is predicting an increase of 700,000 net new jobs in Canada over the next two years. According to the Bank, Ontario is expected to account for well in excess of its normal share of that job growth.

While this pace of job creation is an improvement, it's not acceptable to this Government. Ontario's economy can and will do better.

We need to continue to cut taxes. We need less government. We need to continue to reduce the regulation and red tape that discourage businesses and we need to continue to create an environment that encourages communities and small businesses to grow and create jobs.

Ontario Finance Minister Ernie Eves

Investing for jobs and growth

Helping Communities to Grow and Small Business to Create Jobs

Small businesses create jobs - more than any other sector. As noted by the Committee on Small Business Access to Capital, small businesses need better access to financing to help them grow and create jobs.

The Government will help small businesses by creating Community Small Business Investment Funds. The Government will introduce legislation to make these funds eligible as investments for Labour Sponsored Investment Funds and the small business investment tax credit for banks.

Enterprise Centres for Small Businesses will provide new and growing businesses with coaching and mentoring in business planning, marketing, accounting and overall business strategy.

Banks also have a role to play in small business development. The small business investment tax credit for banks, announced in the 1996 Budget as a temporary incentive, allows banks to earn back a surtax by investing in small business. To help increase small business access to financing, we are announcing a number of measures to enrich this earn-back program. The credit will also be made permanent.

The Canadian Imperial Bank of Commerce has taken a leadership role in providing loans to small businesses at below-prime interest rates. To encourage other financial institutions to follow, the ability to earn back taxes will be extended to encourage loans of $50,000 or less to small businesses at interest rates below bank prime.

Investing in Rural Communities

To create jobs in rural Ontario, we are announcing a three-year, $30-million Rural Job Strategy. As part of this strategy, 3,000 jobs for youth will be created in rural Ontario this summer.

Investing in Jobs for Young People

This Budget provides an additional $6 million to help 40,000 young people get needed work experience and income this summer.

To help graduates struggling to get experience in a tough job market, the Government will provide a 10 per cent tax credit to both large and small private-sector employers to create 45,000 internship jobs over the next three years.

Working in co-operation with banks and private sector business organizations, the Government will contribute $2.5 million toward business start-up loans for unemployed youth. These loans will support the creation of more than 3,000 jobs.

The Government will also support jobs for youth in key sectors of the economy by expanding the successful Co-operative Education Tax Credit announced in last year’s Budget.

This measure will provide students enrolled in leading edge technology educational programs, such as software development, with a 10 per cent tax credit voucher for employers who hire them in jobs related to their program of study.

Creating jobs for the future

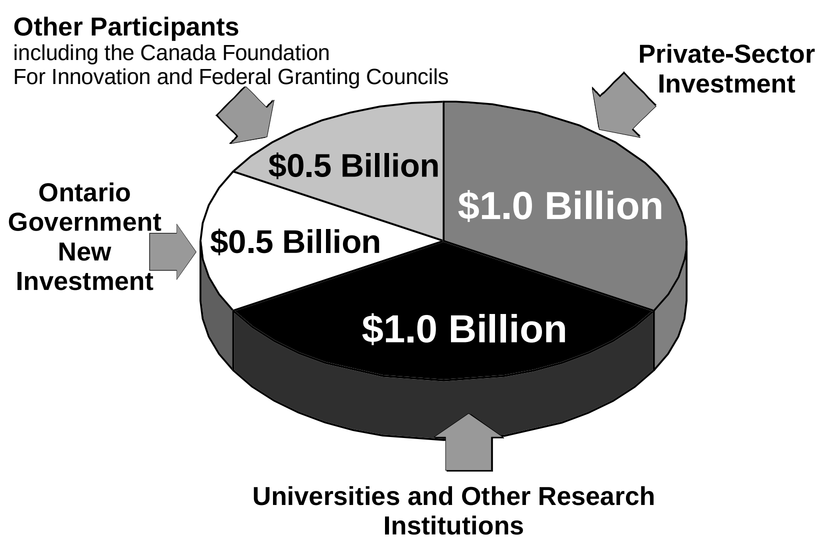
Keeping Ontario at the leading edge of science and technology will help the province create long-term jobs. We need to promote more collaboration and cooperation with the private sector and we need to stimulate greater competition for research excellence among Ontario's universities.

Ontario Finance Minister Ernie Eves

To help the private sector take advantage of our world-class research capabilities in universities and other research institutions, the Government in announcing the creation of a 10-year, $3-billion R&D Challenge Fund.

R&D Challenge Fund

$3 Billion over 10 Years



The province will contribute $500 million in new funding to the R&D Challenge fund over the next 10 years.

The R&D Challenge Fund marks a new, competitively-based approach to research. All proposals to the R&D Challenge Fund will have to meet a market test linked directly to future economic growth and job creation, in the form of a one-third contribution from the private sector.

The Government will support its commitment to R&D through the Ontario Business-Research Institute Tax Credit for qualifying business-sponsored R&D performed by eligible universities, research hospitals, and other non-profit research centres. The Government will also extend the sales tax exemption for research and development equipment purchase to non-profit medical facilities, and will remove tax barriers to R&D.

Investing in Quality Health Care

We are making sure that the money we are allocating for health care provides services for patients and not for bureaucratic waste. By managing the system better, we are providing a higher quality, integrated community-based health care system for the future.

Ontario Finance Minister Ernie Eves

Record Investment in Health Care

The Government is more than meeting its commitment to maintain health care funding at $17.4 billion. For 1997-98, Ministry of Health program funding to improve the quality of care will exceed $17.8 billion. As well, $450 million will be invested in restructuring and $242 million provided for capital construction bring the total funding for health care to $18.5 billion.

The recommendations of the Health Services Restructuring Commission will allow this province to put in place the most modern and effective health care system in this country.

The investments needed to achieve this goal are substantial. Over the next five years, $2.7 billion will be invested in restructuring our community-based health care system. We are keeping the promise to reinvest.

Managing Change to Ensure Better Services

We will ensure that special skills and knowledge are available throughout Ontario by helping to create networks of information. These networks will make best practices and innovations available quickly and broadly, providing the knowledge needed by care-givers to help people across the province.

For example, Cancer Care Ontario will link and integrate cancer services throughout the province.

Investing in Excellence in the Classroom

From 1985 to 1995, school board spending grew by 82 per cent. School property tax revenues rose by more than 120 per cent. We know that this did not result from increasing enrolment, as that grew by only 16 per cent.

The solution for the problems in the school system is the same as it is for the province itself. We have to eliminate unproductive spending. We have to stop the uncontrolled growth in taxes. That is the problem. We are fixing it.

Ontario Finance Minister Ernie Eves

We have committed $650 million over the next two years to renew and build schools. School boards will be able to replace more than 1,000 portable classrooms with permanent facilities.

We are inviting the teaching profession to join us in providing early retirement benefit for teachers to renew the profession. As a result of this incentive, up to 6,500 new teachers would have the opportunity to bring their skills and energy to the classroom of this Province.

Investing in college and university students

The Ontario Student Opportunities Trust Funds, established in last year's Budget, help good students who face financial barriers to get a college or university degree. Cash and pledges total over $250 million. The Province will match this amount, creating an endowment of **half a billion dollars to assist students.**

Because they face special fundraising challenges, the Government is announcing that colleges of applied arts and technology can continue to receive pledges and donations until March 31, 1998.

Pilot project, the first of its kind, will help learning disabled students get the kind of meaningful help they need to make the transition to college or university. Dr. Bette Stephenson will head a task force to design and implement these project. We will provide $30 million over the next five years to carry out this initiative and implement the recommendations of the task force.

Student loan support must better reflect the rewards that students realize from public investment in their education. We are committed to working with the federal government to implement an income-contingent student loan program for September 1998.

Investing in Children and Families

Ninety thousand families and 125,000 children will benefit from a new child care tax credit to assist working families who are not benefiting from current institutional child care system.

This new system will provide more choice to parents and help child care providers make care more affordable. More families will receive assistance, with priority being given to families who need help to start or stay at work.

Ontario supports the inter-provincial initiative for a National Child Benefit. We will redirect $150 million in provincial funds by expanding programs that help families with children to find and keep jobs.

We will enrich the Ontario Tax Reduction program to reduce taxes for 30,000 low-income individuals and families. Twenty thousand more individuals and families will pay no Ontario income tax as a result of this change.

In total, the Ontario Tax Reduction cuts taxes for 530,000 individuals and families eliminates Ontario income tax entirely for another 655,000 individuals and families.

Supporting Safe Communities

Our plan places a high priority on improving safety in our communities and dealing with violent crime.

To complement the community safety initiatives of the police, the government will assist community groups through the Volunteer Linkages program to better screen and supervise volunteers.

The Minister Responsible for Women's Issues will be announcing a comprehensive strategy which will strengthen our efforts to prevent violence against women. We will spend an additional $27 million over the next four years to support women and their families in breaking the cycle of violence.

To promote safety in our communities, The Government will work with municipalities to help them establish "community safety zones" -- for example, school zones and crossings, school bus stops, or areas of roadways with high accident rates. Fines levied for infractions in these zones would be doubled.

We will provide $25 million over the next five years to improve the way police forces work together to investigate and apprehend serial predators.

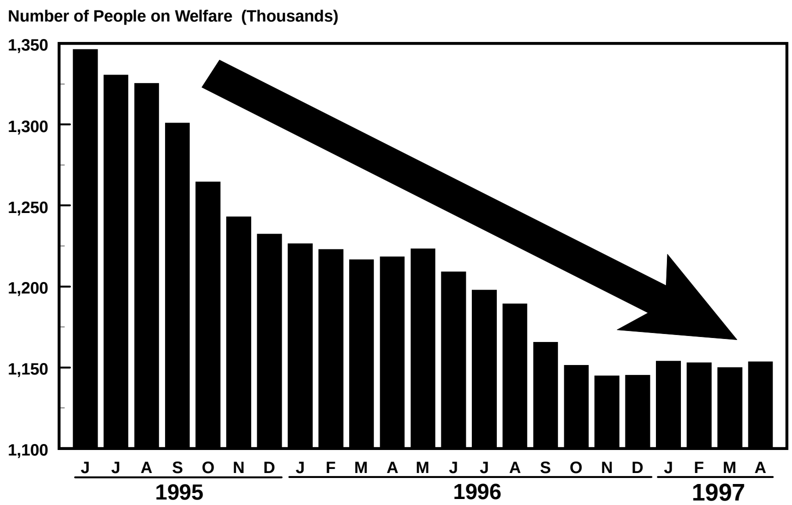
Less Government

Part of our plan to reduce the role and size of government is getting people off welfare and into work.

The Government has increased the incentive to work, reduced benefits to realistic levels, introduced mandatory workfare and cracked down on welfare fraud.

193,000 fewer people rely on social assistance today than when this Government took office.

193,000 Off Welfare in 22 Months



Source: Ontario Ministry of Community and Social Services

To improve accountability in the public sector, the Government will introduce the Public Sector Accountability Act. This Act will require that public sector organizations:

- ♦ report their financial activities in accordance with the recommendations of the Canadian Institute of Chartered Accountants;
- ♦ adopt policies that ensure that the private sector has an open opportunity to compete to provide services to their organizations; and
- ♦ adopt and publicly report on organizational performance using private and public sector benchmarks.

Cutting Taxes and Creating Jobs

We have promised to cut personal income tax rates by 30 per cent over three years to create jobs. The 1997 Budget delivers on the next two steps of that tax cut.

Effective July 1, Ontario's personal income tax rate will be reduced to 47 per cent of basic federal tax. On January 1, 1998, the income tax rate will be reduced further to 45 per cent.

This means that by next January, we will have cut Ontario's rate of income tax by 22.4 per cent since 1995.

The benefits of our plan to cut taxes are clear.

- 91 per cent of all taxpayers will see an Ontario tax cut of 30 per cent or more.
- All taxpayers with incomes of $60,000 or less will see their Ontario taxes fall by 30 per cent or more.

Conclusion

This Budget continues the implementation of the government's plan.

The plan keeps us on track for a balanced budget in 2000-01 and makes government more accountable to taxpayers.

It invests in the economy by helping small and medium size firms in communities across Ontario get access to the financing they need to grow and create jobs.

This plan makes record investments in research and development to create jobs for the future.

It makes communities safer throughout Ontario by protecting our children and our neighbourhoods.

This Budget assists hard working families throughout Ontario. It provides help to many more young families with child care expenses.

The plan invests in education. It invests where the money is needed -- in the classroom.

The plan ensures our commitment to provide quality health care for all Ontarians now and for the future.

It allows taxpayers to keep more of their hard-earned money by cutting personal income taxes. In total we have cut taxes 30 times in less than two years.

Our plan creates jobs for the future.

Our plan lays the foundations for a better tomorrow by investing in the future today.

Ontario Finance Minister Ernie Eves

Paper A

Ontario's Economic Outlook

Ontario at a Glance

Per cent	1996	1997	1998	1999
Real GDP growth	2.0	3.2	3.2	3.3
Employment (thousands)	5,311	Up to 5,437	Up to 5,634	Up to 5,801
Unemployment rate	9.1	8.4-8.7	7.9-8.6	7.7-8.2
CPI inflation	1.6	1.9	1.9	1.9

Sources: Statistics Canada and Ontario Ministry of Finance

Private-sector forecasters expect the Ontario economy to accelerate and to grow more rapidly than the Canadian economy.

- In a recent report, Dun & Bradstreet Canada concluded: “It is not surprising that Ontario continues to lead the nation in optimism and we fully expect this trend to continue in the long term.”
- In its latest quarterly report on the outlook for Canadian provinces, Data Resources International (DRI) forecasts that Ontario will lead all regions of North America in economic growth between 1996 and 2001, spurred by private-sector growth.
- A headline in the Conference Board of Canada’s latest provincial outlook announces “Ontario to Lead Growth in 1997.” According to the Conference Board, “all the fundamental ingredients for a strong pick-up in consumer spending are now combined: better employment growth, improving consumer confidence, personal income tax cuts, modest wage increases and low interest rates.”
- This optimism is echoed by the forecasters of ScotiaBank who observe that “Ontario’s economy is shifting into higher gear as residential construction and business investment add to the impetus from exports.”
- The Royal Bank of Canada forecasts that Ontario will add 309,000 jobs from the end of 1996 to the end of 1998.

This paper presents cautious projections for the Ontario economy that are based on prudent assumptions about key features of the external environment, including interest rates, exchange rates and the performance of the U.S. economy. These projections have been adopted to provide a prudent fiscal plan and should not be interpreted as targets for the Ontario economy.

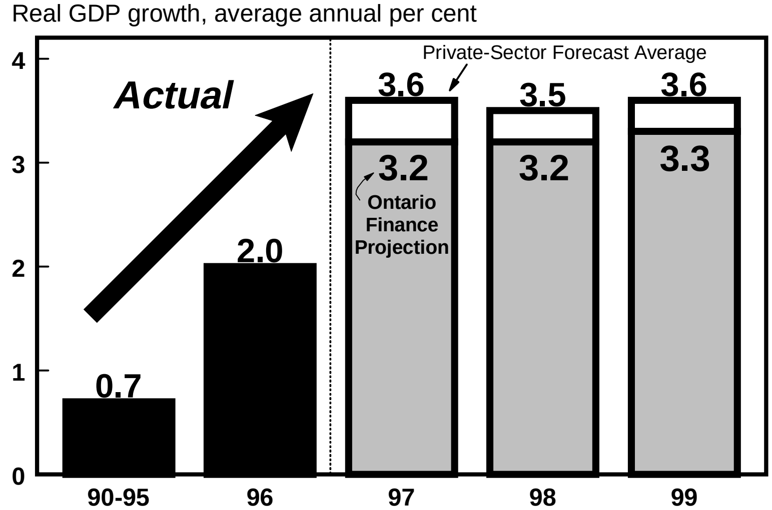
Highlights

Following a half-decade of limited and sporadic growth, domestic spending has entered a period of strong and sustained growth. This growth reflects the impact of personal income tax cuts, lower interest rates and growing consumer and business confidence. Private-sector forecasters expect Ontario to grow more rapidly than the rest of Canada and all of the G-7 countries over the next three years.

- Consumer spending will continue to strengthen as real disposable income increases, reflecting income tax cuts and solid job gains.
- The housing market is buoyant and is projected to lead growth over the next several years.
- Business investment will also be a leading contributor to growth providing concrete evidence of renewed business confidence.
- Ontario's exports will continue to rise faster than the overall economy as exporters take advantage of sustained growth in the U.S., a competitive exchange rate and low production costs.

Stronger Growth Projected

Real GDP growth, average annual per cent



Sources: Statistics Canada and Ontario Ministry of Finance

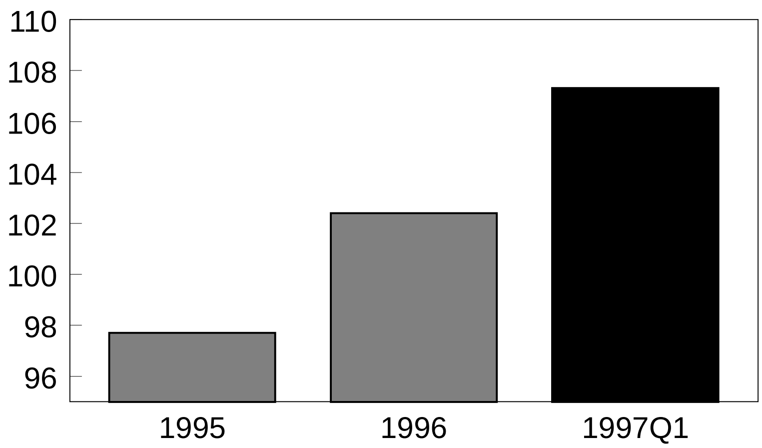
Recent Signs of Economic Strength

The Ontario economy is entering a period of vigour and renewed optimism as continuing strength in exports and business investment are enhanced by healthy gains in consumer spending, soaring housing sales and rising construction activity. The Ontario economy rose at an average annual rate of more than 3 per cent over the third and fourth quarters of 1996.

- In the first quarter of 1997, Ontario housing starts were up 54.1 per cent from the same period a year earlier. For the year 1996, housing starts increased by 20.2 per cent. Toronto-area home resales were up 26.1 per cent in the first four months of 1997, from the same period a year ago.
- Ontario department store sales continued their healthy performance, rising 13.6 per cent from a year earlier in March.
- Businesses plan to raise current-dollar investment in plant and equipment in Ontario by 4.5 per cent in 1997, according to the latest survey from Statistics Canada. This follows a 10.2 per cent rise in 1996, for a total increase of 15.2 per cent over the two-year period.
- Over the first two months of 1997, Ontario international merchandise exports were up 3.5 per cent from a year ago, mainly reflecting higher exports of automotive products and industrial goods.
- Ontario's agricultural and food exports climbed by 11.7 per cent in 1996, to a record total of $5.3 billion.

Consumer Confidence Rising

Ontario Consumer Confidence Index (1991=100)



Source: Conference Board of Canada

Sustained Growth in Ontario's Key Trading Partners

Sustained but slower economic growth in the U.S. and Ontario's strong competitive position support export growth. Moderate expansion in the rest of the industrialized countries will further enhance Ontario exports of goods and services.

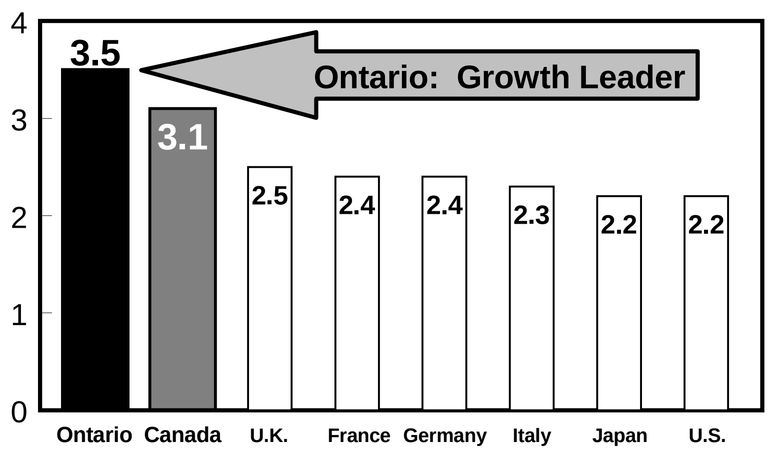
- The U.S. is Ontario's most important export market, accounting for about 90 per cent of our international merchandise exports. Private-sector forecasters, on average, expect rising U.S. interest rates to slow growth from near 3 per cent in 1997 to a more sustainable rate of 2 per cent in 1998. This should keep inflationary pressures in check and provide stability to Ontario's export growth in the medium term.

- Modest economic growth in western Europe is expected to continue over the next few years, as European Union countries continue to prepare their economies for monetary union.

- Although recent weakness in the yen is boosting Japanese exports, continuing restructuring in the financial sector and fiscal tightening are expected to keep overall growth modest in Japan.

Ontario's Growth Leads G-7 Countries

Projected average annual real GDP growth, 1997-2001 (per cent)



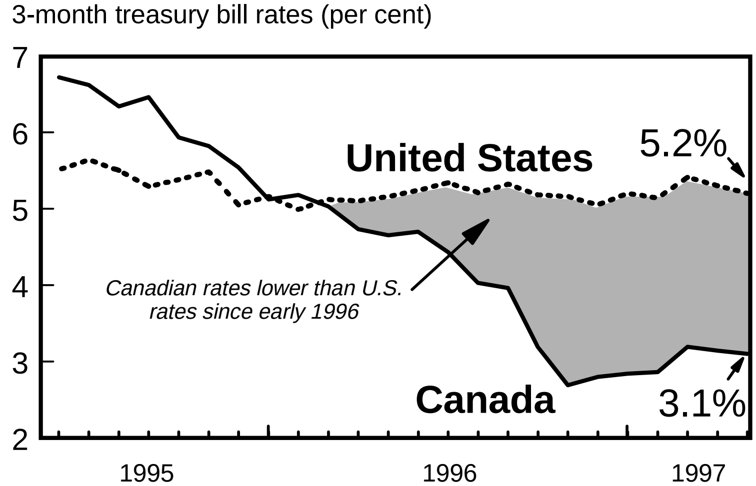
Sources: Consensus Forecasts and Ontario Ministry of Finance Survey of Forecasts (April 1997)

Low Interest Rates Spur Stronger Growth

Low inflation and reduced deficits by Ontario and other governments have set the stage for sustained low interest rates.

- Lower interest rates stimulate the economy with a lag of between 12 and 18 months. The real easing in monetary conditions started in late 1995 and continued through to late 1996. Given the long lags, this will continue to provide a substantial boost to the economy over 1997 and 1998, stimulating output and job creation.

Canadian Interest Rates Lower Than U.S.



Source: Bank of Canada

- Private-sector forecasters expect a modest rise in short-term Canadian interest rates over 1997 due to pressure from higher U.S. rates. According to U.S. forecasters, short-term rates in the U.S. are expected to rise between 50 to 100 basis points, sufficient to slow U.S. economic growth to a sustainable 2 per cent annualized pace.

Cautious Interest Rate Assumptions
(Annual average per cent)

	1996	1997	1998
3-month treasury bills			
Private-sector survey average	4.2	3.3	3.7
Ontario's prudent assumption		4.0	4.7
10-year government bonds			
Private-sector survey average	7.2	6.7	6.3
Ontario's prudent assumption		7.4	7.3

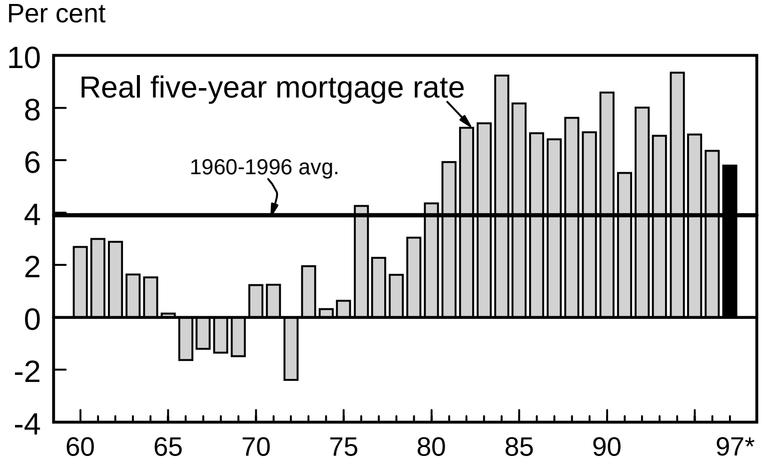
Sources: Bank of Canada, Ontario Ministry of Finance and Ontario Finance Financial Market Survey (April 1997)

Real Interest Rates Remain Too High

While Canadian interest rates, particularly short-term rates, have come down substantially, inflation has also fallen sharply. Real interest rates, adjusted for inflation, remain high by historic standards.

- Three-month treasury bill rates have fallen from a peak of 13.7 per cent in 1990 to 3.1 per cent in early May of this year. They have been below corresponding rates in the U.S. since March 1996 and currently are about two percentage points lower. However, in real terms, the difference is much smaller. Real three-month treasury bills in Canada, measured as the nominal rate less the CPI inflation rate, are currently close to 1.2 per cent, about one percentage point lower than in the U.S.
- Real 10-year government of Canada bonds are currently about 4.7 per cent, high by historical standards. Over the 1960 to 1996 period, real ten-year government of Canada bonds averaged only 3.6 per cent.
- Real five-year mortgage rates are currently almost two percentage points higher than the long-term average.
- With inflation expected to remain low and significant unused capacity, an early rise in interest rates could well dampen growth prospects.

Real Long-Term Interest Rates Remain Historically High



*May 1997

Sources: Statistics Canada, Bank of Canada and Ontario Ministry of Finance

Job Creation Accelerating

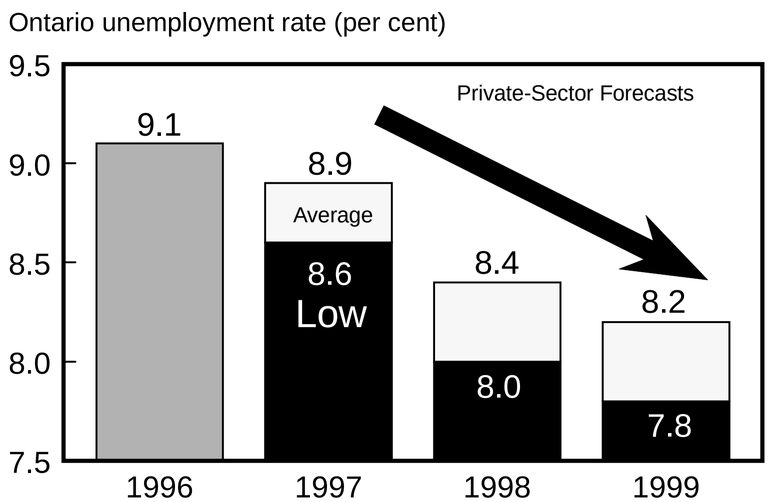
Lower taxes, the strong competitive position of Ontario producers and a renewed spirit of enterprise are leading to accelerating private-sector employment growth.

- Increasing confidence and after-tax income have produced accelerating housing and consumer activity in Ontario. This is leading to increased employment in construction.
- Business and personal services will continue to lead job creation.
- Financial services will rebound with the robust housing market and rising demand for diverse financial assets.
- Manufacturing will remain strong with recent auto plant expansions and continuing strength in U.S. demand.

Private-sector economists expect the unemployment rate to decline despite the increase in labour force growth as individuals return to the workforce, encouraged by improving job prospects.

- The average private-sector forecast for 1999 is an 8.2 per cent unemployment rate. Some forecasters are more optimistic. For example, both University of Toronto and DRI project 7.8 per cent unemployment in 1999.

Private Sector Predicts Lower Unemployment Rate



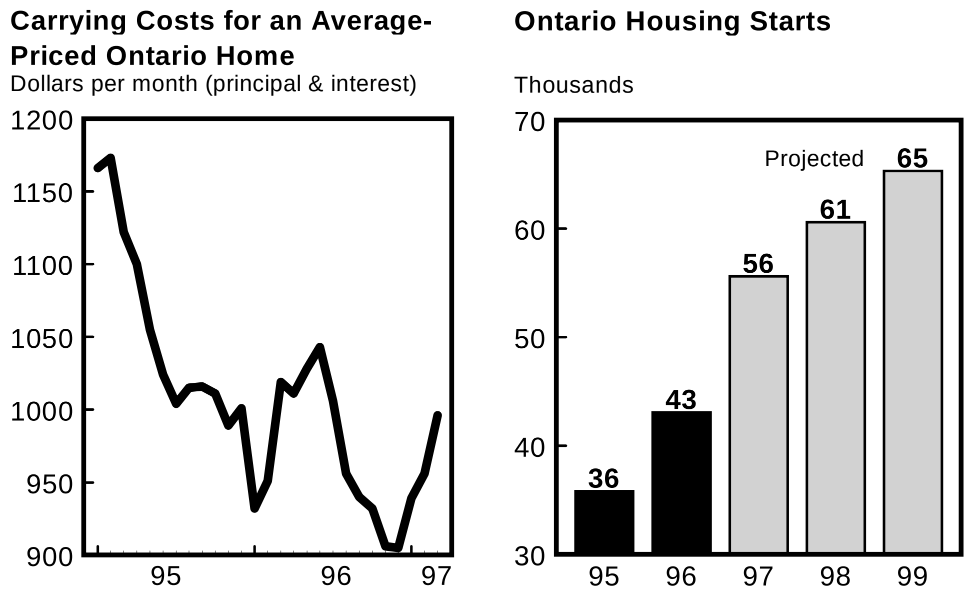
Sources: Statistics Canada and Ontario Ministry of Finance

Housing Leads Domestic Spending

The housing market is leading the expansion of the domestic economy, with strong growth in sales of new and existing homes and housing starts.

Ontario home resales are up 17.3 per cent so far in 1997 compared to the same period in 1996. Toronto-area new home sales are up 69.6 per cent. Ontario housing starts are up 54.1 per cent so far this year.

Low Costs Boost Housing Market



Sources: CMHC and Ontario Ministry of Finance

- So far in the 1990s, housing markets have been much weaker than underlying demographic growth would suggest. This pent-up requirement for housing provides the basis for a sustained recovery of the residential construction sector.
- The Land Transfer Tax (LTT) rebate for first-time buyers of new homes and tax cuts will support demand and create jobs. Over 12,000 refunds were paid to first-time buyers over the past 12 months. The LTT rebate was extended for another year on March 31st. Each new home built in Ontario generates 2.8 person-years of employment.
- Ontario housing starts are expected to rise to 55,600 in 1997, 60,600 in 1998 and 65,300 in 1999. Residential investment in Ontario is projected to increase by 16.0 per cent in 1997 and by an average of 9.3 per cent in 1998 and 1999.

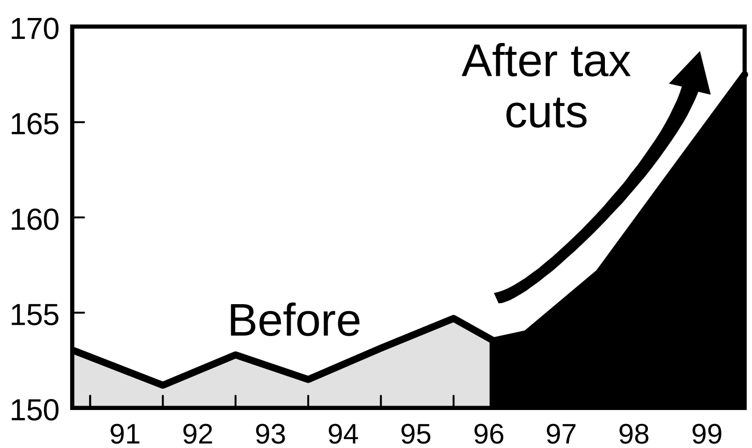
Tax Cuts and Rising Income Boost Consumer Spending

Consumer spending is expected to strengthen over the 1997-1999 period, stimulated by lower taxes, stronger job creation, rising wages and low interest rates.

- Real consumer spending growth is projected to strengthen from 1.5 per cent in 1996, to 2.7 per cent in 1997 and an average 3.2 per cent in 1998 and 1999. Consumer spending in the first half of the 1990s rose by an anemic 0.8 per cent per year. The rebound in consumer spending is supported by personal income tax cuts which boost take-home pay, as well as increased confidence in job prospects and sustained low interest rates.
- Ontario's tax cuts and strong job gains are forecast to boost real personal disposable income growth to an average 3.1 per cent in 1998 and 1999, up from 2.2 per cent in 1997. This is a marked improvement from the 1990 to 1995 period when real disposable income rose at an average annual rate of only 0.1 per cent.
- Stronger disposable income growth and low interest rates will ease the debt burden of households. Mortgage and consumer debt servicing costs currently eat up 9.1 per cent of personal disposable income. This ratio will fall as debt is refinanced and new borrowing occurs at reduced interest rates.

Tax Cuts Boost Real Take-Home Pay

Real personal disposable income ($1986 Billions)



Sources: Statistics Canada and Ontario Ministry of Finance

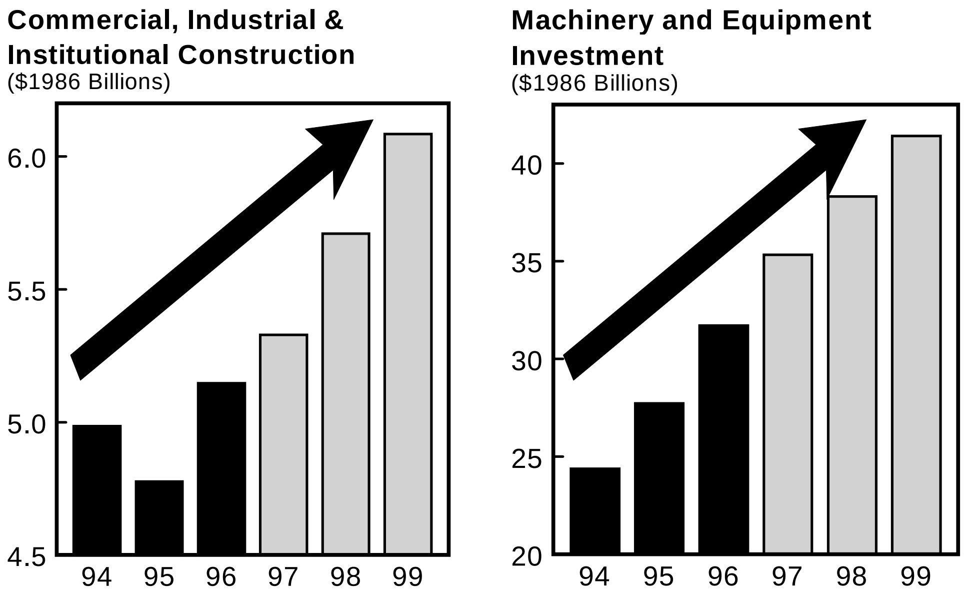
Buoyant Investment Supports Sustained Growth

Investment in Ontario has increased sharply as firms upgraded equipment and added capacity to meet the challenges of globalization and freer trade.

Capital investment not only increases the physical capacity to produce goods and services but also enhances Ontario's competitive position. By employing the latest technologies and processes, investment in new machinery and equipment enables business to lower costs, improve quality and increase market share. Investment is the catalyst to increased productivity generating higher profits and higher labour income.

- Ontario real business investment in machinery and equipment rose an average 15.0 per cent per year over the 1994 to 1996 period. It is projected to increase by 11.4 per cent in 1997 and expand by an average of 8.3 per cent in the 1998 and 1999 period.
- Following six consecutive years of decline, real investment in commercial, industrial and institutional construction rose 7.7 per cent in 1996 and is expected to rise by an additional 18.2 per cent over the next three years.
- Major investment projects, for example, are being carried out by Chrysler, Toyota and Honda.

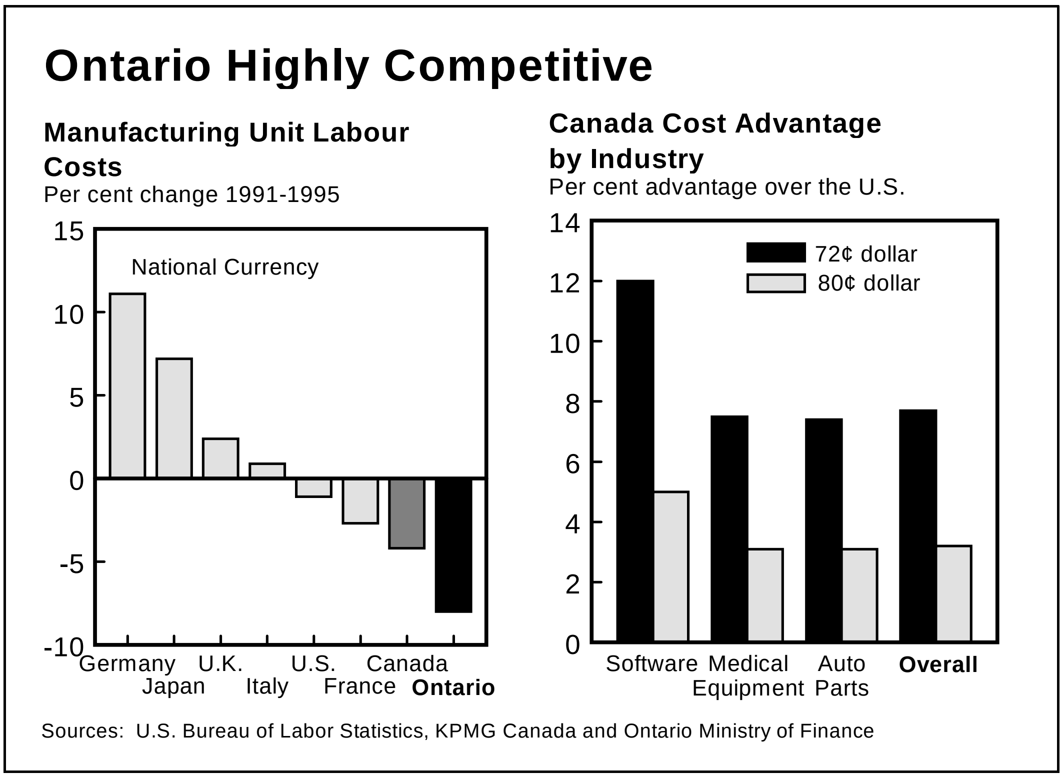
Ontario Real Business Investment Growing



Sources: Statistics Canada and Ontario Ministry of Finance

Competitive Position Supports Job Creation and Growth

Canadian industries have become highly competitive. In the early 1990s, Canadian producers were burdened with high operating costs, high commercial and industrial rents and exorbitant taxes. Today there is ample and affordable commercial and industrial space, labour costs are more competitive and taxes are lower.



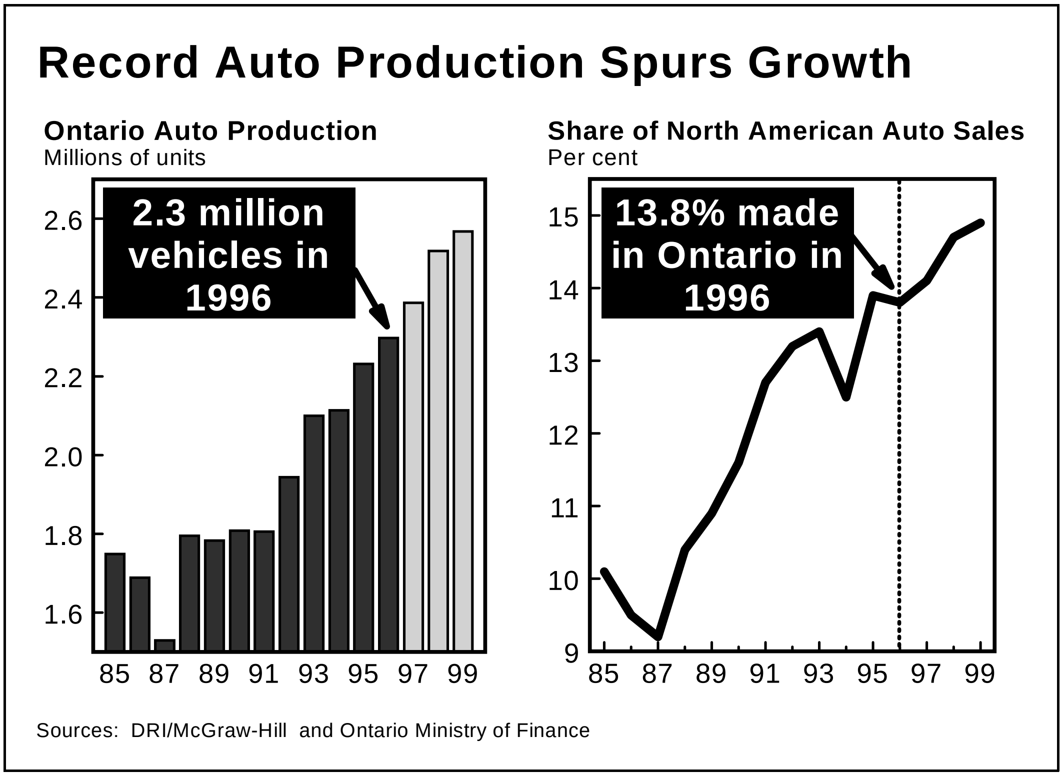
- Ontario's manufacturing unit labour costs declined 8.0 per cent between 1991 and 1995 (the latest year for which data are available), better than any of the G-7 countries. Unit labour costs measured in U.S. dollars declined by 23.2 per cent.

- Industrial land costs, construction costs, wages and benefit costs, notably for health care, and payroll taxes are lower in Canada than in the U.S. A recent study conducted by KPMG Canada shows that Canada has a cost advantage over the U.S., our major trading partner, at exchange rates of up to 87 cents U.S. With a 72 cent dollar, Canada has an overall 7.7 per cent cost advantage and even with an 80 cent dollar, Canada would have a 3.2 per cent cost advantage.

- Low inflation, falling government deficits and an improving current account balance will support a rising dollar over the medium term, despite some near-term volatility as financial markets adjust to higher U.S. interest rates.

Increasingly Export-Oriented Economy

Ontario's economy is increasingly export-oriented. International exports were equivalent to 45.8 per cent of GDP in 1996, up from 28.5 per cent of GDP in 1989. Ontario's export-to-GDP ratio is higher than any G-7 country.



The auto sector plays a fundamental role in Ontario's growth and export performance. Autos contributed 5.2 per cent to overall output in 1996, and accounted for about 45 per cent of total exports.

- North American auto sales are expected to grow modestly over the next two years. Ontario auto production, however, is expected to rise faster than total sales and capture a growing share of North American markets. Added capacity will ensure continued momentum in Ontario auto exports.
- The capacity of Honda's plant in Alliston and Toyota's plant in Cambridge is expected to rise by about 230,000 units by 1998.

Although Ontario high-tech industries currently make up 7.4 per cent of provincial output, they accounted for about 44 per cent of Ontario's real GDP growth from 1990 to 1996. These industries compete successfully in a global market.

Overall, Ontario real exports are projected to grow at an average 5.1 per cent over the 1997 to 1999 period. Ontario's real trade balance is expected to rise, contributing to GDP growth over the medium term.

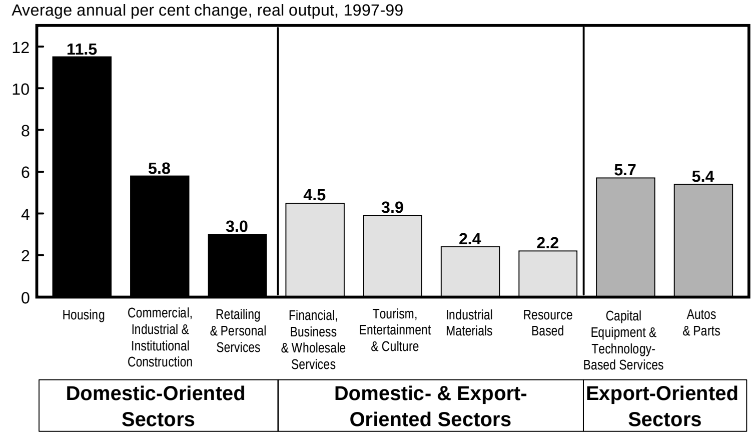
More Balanced Sectoral Growth

Ontario's strengths as an exporter of goods and services, combined with renewed consumer confidence, will support growth in many industries. Lower interest and mortgage rates, tax cuts, government deregulation, and improving employment opportunities will all help broaden Ontario's economic expansion by bolstering consumer and business demand.

- ♦ Domestic-oriented sectors such as housing, retailing, entertainment and culture are an increasing source of jobs and growth, spurred on by tax cuts and rising consumer confidence.

Stronger Growth Projected from Domestic-Oriented Sectors

Average annual per cent change, real output, 1997-99



Source: Ontario Ministry of Finance

- ♦ Export-oriented sectors such as capital equipment, software and autos will continue to gain market share in the United States. These sectors will benefit from steady growth in U.S. business and consumer demand, and a competitive Canadian dollar.

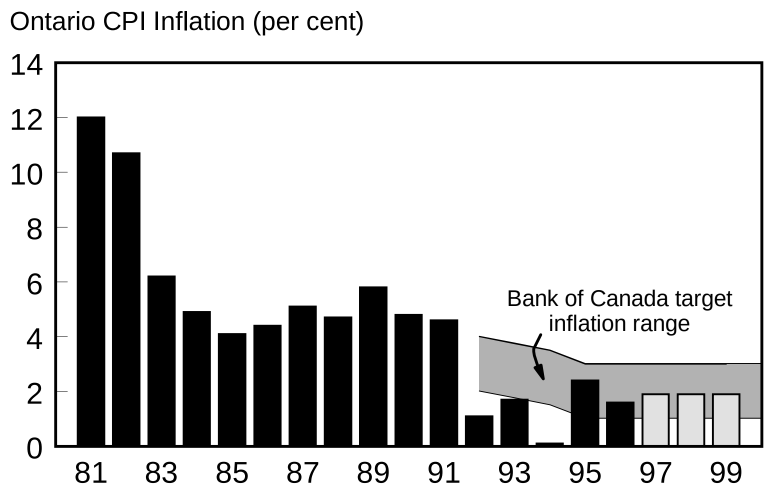
- ♦ Sectors relying on both export and domestic markets, such as financial and business services, are benefiting from improvements in business and consumer confidence within the province, nationally and in the U.S.

Low Inflation Continues

Inflation should remain low over the next several years. This reflects improving productivity, modest wage settlements and unused production capacity in the economy. A stronger Canadian dollar over the medium term will also help keep inflation low.

- Ontario CPI inflation was 1.6 per cent in 1996, and is projected to average 1.9 per cent over the 1997 to 1999 period. Inflation is expected to stay well within the Bank of Canada's current target range of 1 to 3 per cent.
- Labour costs are important to continuing low inflation since they account for about 55 per cent of the economy's domestic cost base. Wage settlements have averaged about 1 per cent per year over the past four years. Higher productivity due to continuing strong investment will allow firms to raise wage rates without leading to higher consumer prices.
- With the exception of Japan, Ontario is expected to have lower inflation than all of the G-7 nations through the end of the decade.

Ontario Inflation to Remain Low



Sources: Statistics Canada and Ontario Ministry of Finance

Sensitivity of Deficit to Changes in Economic Assumptions

In order to develop a cautious fiscal plan, this Budget is based on prudent assumptions about interest rates and economic growth. Interest rates are assumed to be one percentage point higher than the private-sector consensus forecast, and our economic assumptions are deliberately set below the private-sector consensus and Ontario's potential.

Cautious Economic Growth Projections
(per cent)

	1997	1998	1999
Ontario Real GDP Growth			
Private-sector high	4.3	4.4	4.2
Private-sector low	3.0	2.3	3.1
Private-sector survey average	3.6	3.5	3.6
Ontario's prudent projection	**3.2**	**3.2**	**3.3**

Sources: Ontario Ministry of Finance and Ontario Finance Survey of Forecasts (April 1997)
Note: The private-sector average is based on nine respondents for 1997, eight for 1998 and four for 1999.

The following table shows the sensitivity of the deficit to the direct impact of lower interest rates on public debt interest (PDI) and the impact of stronger economic growth on revenues and expenditures. These are partial calculations. For example, the impacts do not incorporate the economic impact of lower interest rates on economic activity.

Impact of Assumptions on the Ontario Deficit
(Change from base level)

	Impact on Deficit ($millions)	
	1997-98	**1998-99**
100 Basis Point Fall in Canadian Interest Rates	-105	-265
1 Percentage Point Increase in Real GDP Growth	-440	-925

Source: Ontario Ministry of Finance
Note: Second-year figures are cumulative change from base level.

The Ontario Economy, Summary: 1994-1999
(per cent change)

	Actual			Projected		
	1994	1995	1996	**1997**	1998	1999
Real Gross Domestic Product	4.7	3.2	2.0	**3.2**	3.2	3.3
Personal consumption	2.7	1.6	1.5	**2.7**	3.2	3.2
Residential construction	1.8	-13.3	13.2	**16.0**	9.9	8.6
Commercial, industrial and institutional construction	-20.9	-4.2	7.7	**3.5**	7.2	6.6
Machinery and equipment	17.0	13.7	14.4	**11.4**	8.4	8.1
Exports	14.4	9.9	3.5	**5.1**	5.3	5.1
Imports	13.9	8.8	2.6	**4.8**	5.0	5.0
Nominal Gross Domestic Product	4.3	4.1	3.3	**5.0**	5.0	5.3
Other Economic Indicators						
Retail sales	6.7	3.1	0.3	**4.0**	4.7	4.8
Housing starts (000s)	46.6	35.8	43.1	**55.6**	60.6	65.3
Personal income	2.1	3.5	1.5	**3.2**	4.4	4.6
Corporate profits	31.9	14.9	7.2	**13.8**	6.5	5.6
Ontario Consumer Price Index	0.1	2.4	1.6	**1.9**	1.9	1.9
Labour market						
Employment*	1.4	1.4	1.5	**1.6-2.4**	2.5-3.6	2.5-3.0
Unemployment rate* (per cent)	9.6	8.7	9.1	**8.4-8.7**	7.9-8.6	7.7-8.2

Sources: Statistics Canada and Ontario Ministry of Finance
*Based on Statistics Canada Labour Force Survey

Paper B
Ontario's Fiscal Plan

Introduction

With the 1997-98 fiscal year, Ontario is well into the Government's five-year plan to balance the budget by the year 2000-01. This year, the deficit will be reduced by over 40 per cent from the $11.3 billion potential deficit outlook facing the Government when it assumed office in June of 1995.

To date, the Province has met, and in fact exceeded, the deficit targets outlined in the Balanced Budget Plan.

At the same time that the deficit has been cut, the Province has invested heavily in priority areas undergoing restructuring, particularly in health care and education.

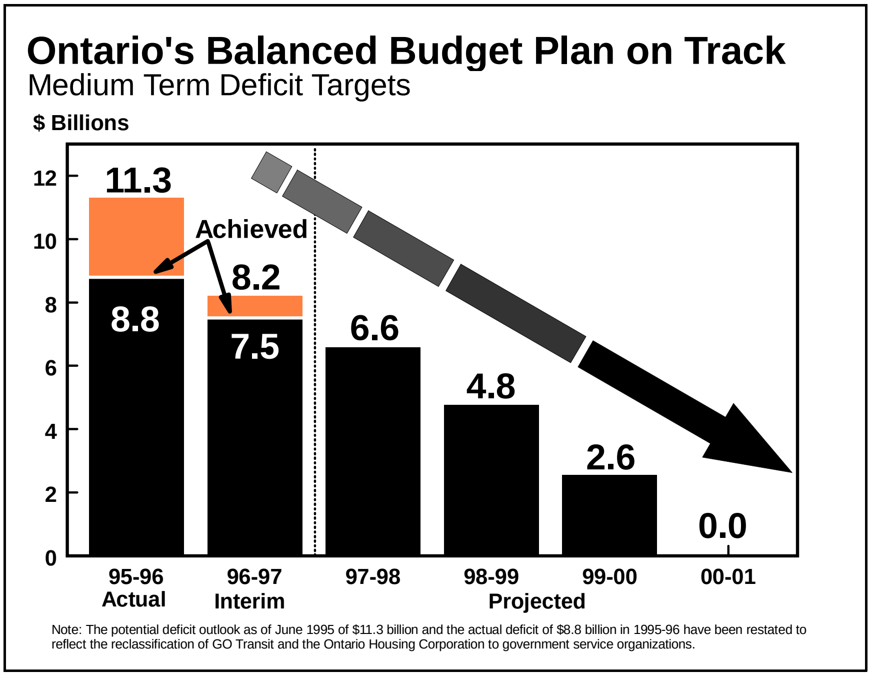
This paper:

- Outlines the 1997-98 Budget Plan;
- Projects the medium term fiscal outlook; and
- Highlights Ontario's improving fiscal performance.

The paper concludes with a review of the interim financial results for Ontario in 1996-97.

On Track to Balance the Budget

In the fall of 1995, the Government set out its Balanced Budget Plan to eliminate the deficit by the year 2000-01. Ontario remains on track to meet the declining annual deficit targets outlined in the Plan.



- This is the second year in a row that the deficit target has been over-achieved. The 1995-96 Budget deficit target was over-achieved by $508 million. The interim 1996-97 deficit is $710 million below the target of $8.2 billion.

1997-98 Fiscal Plan

In 1997-98, the deficit will decline by $890 million to $6.6 billion. This represents a decline of over 40 per cent or $4.7 billion from the $11.3 billion deficit outlook facing the government upon assuming office in June of 1995.

1997-98 Fiscal Plan
($ Millions)

	Interim 1996-97	Plan 1997-98	Change $ Millions	Change Per cent
Revenue:				
Taxation	38,136	**37,505**	(631)	(1.7)
Federal Transfers	5,896	**5,295**	(601)	(10.2)
Income from Government Enterprises	1,938	**2,320**	382	19.7
Other Revenue	3,173	**3,280**	107	3.4
Total Revenue	49,143	**48,400**	(743)	(1.5)
Expense:				
Programs	43,012	**41,780**	(1,232)	(2.9)
Restructuring and Other Charges	2,306	**610**	(1,696)	(73.5)
Total Program Expense	45,318	**42,390**	(2,928)	(6.5)
Capital	2,586	**2,750**	164	6.3
Public Debt Interest	8,709	**9,190**	481	5.5
Total Expense	56,613	**54,330**	(2,283)	(4.0)
Reserve	0	**650**	650	-
Deficit	**7,470**	**6,580**	**(890)**	**(11.9)**

- Revenue in 1997-98 is projected to be $48,400 million, a decline of $743 million from 1996-97. This decline is a result of a $601 million cut in federal transfers and $742 million of 1995-96 Personal Income Tax (PIT) revenue included in 1996-97, partially offset by increased Income from Government Enterprises of $382 million.

- Through greater efficiencies and savings, the Government will reduce the 1997-98 planned expenses of the Province by $2,283 million from the 1996-97 interim level of $56,613 million to $54,330 million.

- In keeping with prudent budgeting, a $650 million Reserve has been included in the 1997-98 fiscal plan. The Reserve is designed to protect the fiscal plan against unforeseen risks such as unexpected and adverse changes in the economic outlook and their impact on revenues and public debt interest.

1997-98 Revenue Outlook

Revenue in 1997-98 is projected to be $48,400 million. Tax revenue is projected to decline by $631 million in 1997-98. This decline in tax revenue is due to the inclusion in 1996-97 revenues of $742 million to capture higher 1995-96 Personal Income Tax (PIT) than reported in the 1995-96 Public Accounts. Excluding this adjustment, standardized tax revenue is projected to continue to grow by $111 million or 0.3 per cent in 1997-98 as the current economic expansion continues.

Standardized Tax Revenue*
($ Millions)

	1995-96	1996-97	1997-98
Standardized Tax Revenue	36,730	37,394	37,505

* Tax revenue adjusted to report PIT in the year earned.

1997-98 Revenues
($ Millions)

	Actual 1995-96	Interim 1996-97	Plan 1997-98
Taxation	36,316	38,136	**37,505**
Federal Payments	7,880	5,896	**5,295**
Income from Government Enterprises	1,730	1,938	**2,320**
Other Revenue	3,547	3,173	**3,280**
Total Revenue	**49,473**	**49,143**	**48,400**

- Personal Income Tax revenue is projected at $14,490 million. It includes the impact of the tax rate cut, the Fair Share Health Care Levy and the measures announced in the Budget.
- Retail Sales Tax (RST) is estimated to increase to $10,390 million, as consumer and business spending continues to grow. This projection includes the RST changes announced in the Budget.
- Corporations Tax revenue is projected to grow to $6,450 million due to rising corporate profits. This projection includes the Corporations Tax initiatives announced in the Budget.

- Employer Health Tax (EHT) revenue is projected to decline to $2,640 million as a result of the continuing phase-in of the EHT exemption announced in the 1996 Budget.

- Federal transfers to Ontario will decline by $601 million in 1997-98 from 1996-97 levels. This change is mainly due to a federal cut of $609 million under the Canada Health and Social Transfer (CHST). Beginning April 1, 1996, the federal government replaced the Established Programs Financing (EPF) and the Canada Assistance Plan (CAP) with the CHST. As well, the federal government will cut cash transfers to provinces for health care and other social programs by $7.1 billion, or 42.5 per cent, between 1995-96 and 1998-99. Compared to combined EPF and CAP revenues in 1995-96, federal CHST payments to Ontario will be cut by $2,123 million in 1997-98.

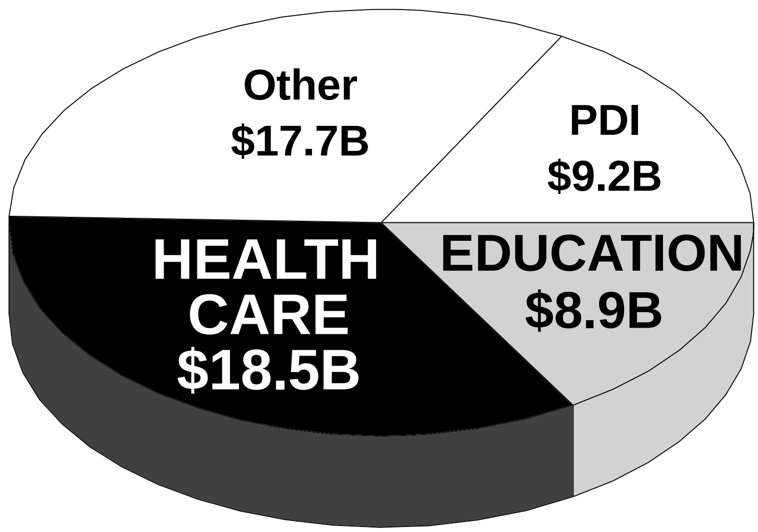
- Income from Government Enterprises is expected to increase by $382 million. Income from Government Enterprises is increasing by $90 million from the introduction of video lotteries in charity gaming clubs and race tracks, and the full-year revenues from Casino Niagara and Casino Rama, which opened during 1996-97.

- Other Revenue, including Vehicle and Driver Registration Fees, Other Fees and Licences, Royalties and Liquor Licence Board of Ontario revenue, is expected to increase by $107 million.

1997-98 Expense Outlook

In 1997-98, the Government will continue to invest heavily in the priority areas of health care and education. For the coming year, more than $27 billion in funding will be made available to support these priorities.

Support for Priority Programs, 1997-98
Total Expense: $54.3 Billion



- The Province is once again signalling its commitment to health care services. This year's funding includes $17.8 billion in program funding. A one-time provision of $450 million has also been made to further support restructuring in the health care system. The capital budget for the Ministry of Health will be $242 million this year, $60 million higher than last year's capital spending. In total, $18.5 billion in health care funding will be provided in 1997-98.

- To continue providing children with an excellent education, schools will receive almost $4.5 billion in provincial grants. Colleges and universities will continue to receive more than $2.2 billion from the Province. More than $450 million will be provided to the Ministry of Education for capital expenses. To reduce the size of government spending outside of the classroom, the number of school boards will be cut approximately in half from 129 and the number of trustees will be reduced by more than half from 1,900.

Investing in Ontario's Infrastructure

The Government of Ontario has agreed to participate in the extension of the Canada-Ontario Infrastructure Works (COIW) program in 1997-98. A total of $459 million will be invested to meet the province's strategic infrastructure priorities. As a result of this initiative, $325 million will be spent by Ontario in conjunction with the federal government. In addition, $134 million will be invested by local partners.

Canada-Ontario Infrastructure Works
($ Millions)

Program	1997-98
Municipal Road and Water and Sewer System Projects	183
Community Care and Long Term Care Facilities	135
Strategic Transportation Highway Projects	83
Post-Secondary Institutions	58
Total	**459**

- Municipalities across Ontario will be invited to propose local road and water and sewer system projects to be funded through this program, up to a maximum of $183 million in 1997-98. The provincial and federal governments will each provide one-third of the funding towards the eligible costs of the projects.
- In concert with local health care partners, funds will be provided to support construction of new community care and long-term care facilities and renovating and redeveloping existing facilities.
- In partnership with municipalities, infrastructure projects that attract and complement private-sector investments in all regions of the province will be funded under this program. In addition, strategic transportation highways will be rehabilitated in all regions of Ontario.
- In conjunction with the province's colleges and universities, funds will be provided to repair post-secondary facilities across the province.

Municipal Capital and Operating Restructuring Fund

In January, through the Who Does What exercise, the Ontario Government proposed a new arrangement for provincial-municipal responsibilities. This plan was designed to control spiralling education costs, end duplication in the delivery of services between the provincial and municipal governments and create tax fairness across the province. The Government made it clear that it was open to changes in the proposal which would make it easier to meet these objectives.

After several months of discussion, municipal representatives offered an alternative solution that reflected the views of a broad cross-section of interests. On May 1, 1997 the Government accepted the proposed alternative and will now proceed with the necessary implementation. The fiscal implications of the revised Who Does What arrangements have been reflected in this Budget.

The Province is providing at least $800 million in transition assistance through the Municipal Capital and Operating Restructuring Fund. Additional funds will be available based on demonstrated need.

Municipal Capital and Operating Restructuring Fund
($ Millions)

Program	1996-97	1997-98	Future Years	Total
Water and Sewer Systems	-	40	160	200
Non-Profit and Co-operative Housing	150	23	-	173
Transportation	200	-	-	200
Unallocated	-	137	90	227
Total	**350**	**200**	**250**	**800+**

- Through the Ministry of Environment and Energy, a total of $200 million, including $40 million in 1997-98, will be provided over the next three years to help municipalities invest in water and sewer systems. This transitional assistance will help municipalities to assume full responsibility for operating and financing water and sewer systems. The fund will target those municipalities requiring financial assistance to address immediate public health and environmental risks.

- The Government has provided $173 million for non-profit and co-operative housing major capital reserves funded through the Ministry of Municipal Affairs and Housing. Contributions into these reserves were suspended by the previous government as a constraint measure. The contributions have been reinstated to ensure that the proper resources are available to maintain and upgrade these housing projects.

- In recognition of transit, GO Transit and ferry-related needs that result from the re-alignment of responsibilities, $200 million is being provided to municipalities to seed their capital reserves.
- At least an additional $227 million will be made available to municipalities to assist them with their other transition requirements.

In addition to this transition assistance through the Municipal Capital and Operating Restructuring Fund, $42 million in additional funds will be provided to the Ontario Housing Corporation's 1997-98 capital budget to help municipalities assume responsibility for managing the public housing stock in the province. Along with federal support, this year's budget for capital repairs and renovations will be $100 million.

The Government will also be providing an additional $225 million to address needs associated with the transfer of approximately 3,400 kilometres of highways to municipalities. The highways to be transferred are significantly less than the 9,000 kilometres originally contemplated by the Who Does What Panel.

The Community Reinvestment Fund and Additional Transition Assistance will ensure that fiscally vulnerable communities are not unduly affected. These Funds will provide $142 million in 1997-98 and $570 million annually in subsequent years.

Ensuring Efficient and Effective Government

Over the past year, the Honourable David Johnson, Chair of Management Board, has led a government-wide initiative directed at restructuring administrative services. All areas of administration have been examined to ensure a smaller, more efficient system. In support of this objective, a number of initiatives are under way that incorporate standardization of procedures, streamlining of processes, integration and coordination of functions among ministries, and the out-sourcing of services to the private sector. Examples of projects implemented or under way include:

- Electronic invoicing and payments with large vendors which, once fully implemented, will eliminate financial data-entry processes with large vendors dealing with the government.
- Implementation of new private-sector long distance telephone services through competitive tender, which has reduced costs substantially across the government for long distance voice and calling card expenditures.
- Closure of the government's GO-Temp operation with temporary staff now fully supplied by the private sector.
- Purchasing cards used by designated employees for the purchase of low-dollar value goods and services. Operating savings are being realized through reduced petty cash and accounts payable invoice processing and lower cheque volumes.
- The warehousing function for the province's Publications Ontario operation is now being met by a private-sector firm.
- Several ministries have reduced overlap and duplication by sharing support services, information systems, and administrative processing.

This restructuring is taking place over time. The end result will be a smaller, more efficient administrative structure in the government. Other measures that will complement this work include:

- The Treasury Board Act, 1991 will be changed to allow for greater delegation of financial authority to ministries to capture administrative and operational efficiencies.
- Ontario will change the basis on which the debt guarantee fee currently paid by Ontario Hydro to the Province is calculated. This will reflect more accurately Ontario's obligations under its guarantee of Ontario Hydro's borrowings.

An Open and Accountable Government

Part of being an accountable government is openness and the willingness to listen. In keeping with this principle, the Government is launching a number of initiatives for more effective administration.

Assessment Services

The Government will work with the municipal sector to transfer control of the delivery of property assessment services. Legislation will be introduced to establish an efficient and effective assessment function at the municipal level.

Financial Services Reform

The Government will table legislation to create the Financial Services Commission of Ontario. The creation of the FSC will result in more efficient and coordinated protection for consumers and pension plan members in Ontario. The FSC will retain an independent appeal function for pension and other regulatory matters.

Securities Commission Reform

As part of its spending control strategy, the Government has focused on eliminating costly overlap and duplication.

Ontario and the federal government have discussed ways to reduce duplication and overlap in securities regulation and in the administration of the tax system. However, the federal government has not acted in either area.

Business and investors need access to capital markets in order to grow and support job creation. While Ontario has indicated that it would participate in a Canadian Securities Commission, Ottawa has not acted. Therefore, the Province will introduce legislation this spring to strengthen the Ontario Securities Commission and to reduce regulatory costs to investors and businesses. This arrangement would not preclude a later transition to a Canadian Securities Commission.

Tax Administration Reform

Ottawa has also been slow to act on creating a national tax administration system that is simple, cost-effective and committed to quality services for taxpayers. The Government will seek expert independent advice to look for better ways to administer the Ontario tax system, reduce costs and improve service to taxpayers.

Pension Benefits Act Reform

Ontarians have indicated that the Province's pension legislation is complex, inefficient and costly. They have also experienced frustration because of an inability to access their pension money in locked-in retirement accounts, specifically in cases of hardship.

To address these and related concerns, the Government will consult with the pension community on ways of streamlining the regulatory system while ensuring that employees' rights are protected. The Government is also interested in exploring with other governments the possibility of moving towards a single regulatory regime for pensions.

Loan and Trust Companies Regulatory Reform

Ontario is also discussing with the federal government ways of eliminating overlap and duplication in the loan and trust regulatory system. In order to complete these discussions, legislation will be introduced to extend the sunset period in the Loan and Trust Corporations Act.

Public Sector Accountability

The Public Sector Accountability Act will be introduced and will require publicly funded organizations to follow best practices in managing their operations. This includes requiring them to report their financial activities in accordance with the recommendations of the Canadian Institute of Chartered Accountants.

This Act will require these organizations to disclose to the public, in a corporate plan and annual report, information on the objectives of the organization, the plan for carrying out these objectives, the resources required and performance against their plan. It will also require them to benchmark their activities against the public and private sector to ensure that best practices are followed, and to provide a plan to move towards best practices in those situations where they have fallen behind.

This process will require organizations to identify opportunities to improve service delivery and involve the private sector in the design and delivery of those services. Organizations will also be required to develop and communicate measurable performance indicators.

These changes will ensure that all money being spent by publicly funded organizations is being wisely, prudently and efficiently spent for the intended purpose, regardless of the source of the money.

Medium Term Fiscal Outlook

Over the medium term, Ontario's deficit will continue on its downward track toward a balanced budget. In 1998-99, the deficit outlook will be reduced by a further $1.8 billion from $6.6 billion in 1997-98 to $4.8 billion.

Medium Term Fiscal Outlook
($ Billions)

	Interim 1996-97	Plan 1997-98	Outlook 1998-99
Revenue	49.1	**48.4**	48.8
Expense			
Programs	43.0	**41.8**	40.8
Restructuring and Other Charges	2.3	**0.6**	0.1
Total Programs	45.3	**42.4**	40.9
Capital	2.6	**2.8**	2.4
Public Debt Interest	8.7	**9.2**	9.6
Total Expense	56.6	**54.3**	52.9
Reserve	0.0	**0.7**	0.7
Deficit	**7.5**	**6.6**	**4.8**

Note: Numbers may not add due to rounding.

- By 1998-99, the Government will have reduced the Provincial deficit by $6.5 billion or 58 per cent from the $11.3 billion potential deficit outlook it faced in June of 1995.

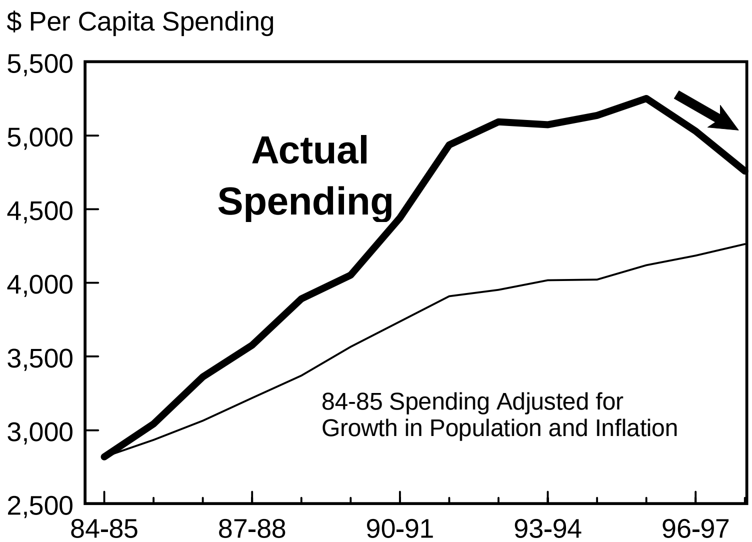
- By controlling costs and identifying greater efficiencies and savings, the Government will maintain total program costs in 1998-99 below the level of program costs in 1996-97 and 1997-98.

Ontario's Improving Fiscal Performance

Turning the Corner on the Fiscal Plan

Since assuming office, the Government has taken firm action to restore the fiscal health of the Province. Between 1984-85 and 1995-96, spending grew much faster than the growth in population and inflation. Since then, government spending has been reduced and will continue to fall.

Less Government, Lower Spending



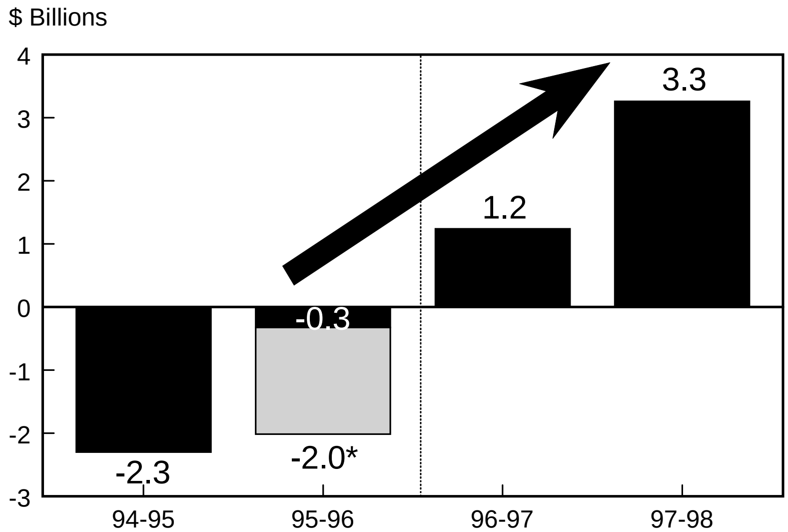
- After increasing in the late 1980s and early 1990s, spending will be reduced to $4,759 per capita in 1997-98, a decline of 5.4 per cent from the previous year.

Achieving an Operating Surplus in 1996-97

Ontario's Balanced Budget Plan will ensure that total government spending does not exceed revenue in the year 2000-01. Already, Ontario has achieved an important milestone by recording an operating surplus of $1.2 billion in 1996-97.

The operating balance is an indicator used by the federal government to show the amount by which total revenues exceed spending on all programs. It is calculated as the difference between government revenue and total spending on all programs, not including public debt interest.

Operating Balance Now in Surplus



* Potential operating deficit of $2.0 billion when the government assumed office in June, 1995.

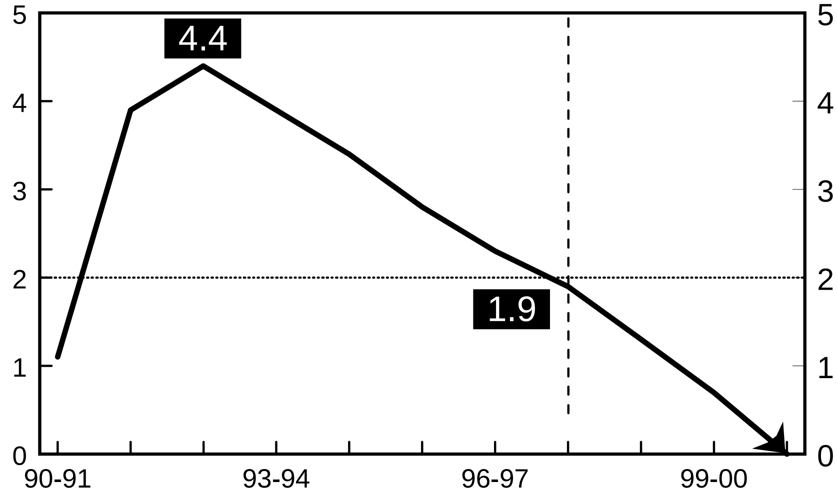
- Ontario has gone from an operating deficit in 1994-95 of $2.3 billion to an operating surplus in 1996-97 of $1.2 billion. The operating surplus will grow further to $3.3 billion in 1997-98.

Reducing the Deficit to Below Two Per Cent of GDP in 1997-98

A further indicator of Ontario's improving fiscal health is the falling ratio of the deficit as a share of the economy. In 1997-98, Ontario's deficit will decline to below 2 per cent of Gross Domestic Product (GDP).

Deficit Below 2% of GDP in 1997-98

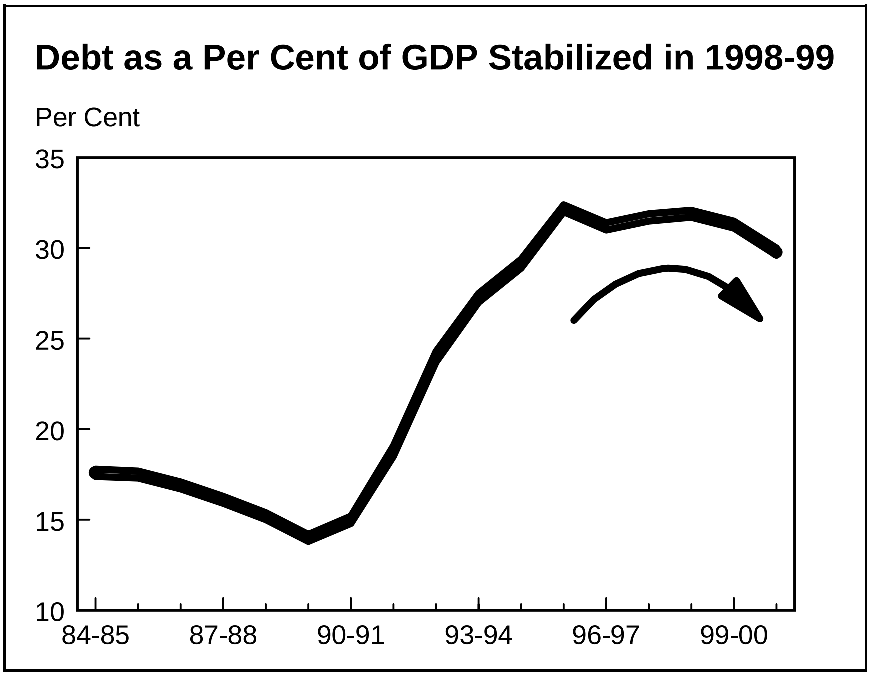
Deficit as a per cent of GDP



- In the early 1990s, Ontario's budgetary deficit rose significantly, reaching a peak of 4.4 per cent of provincial GDP in 1992-93. Under the Balanced Budget Plan, the deficit will be reduced to 1.9 per cent of GDP this year and will continue to fall in future years.

Reducing Debt as a Per Cent of GDP in 1998-99

As a result of the Government's Balanced Budget Plan, the growth in the ratio of debt to GDP will halt in 1998-99 and will begin to decline.



- In 1998-99, Ontario's debt as a share of GDP will stabilize at 32.1 per cent, and begin to fall annually thereafter.
- In 1995-96, $5.6 billion of debt was pre-borrowed to meet 1996-97 financing requirements and to take advantage of favourable market conditions at that time. This borrowing caused the temporary upswing in the ratio of debt to GDP in 1995-96.

1996-97 In-Year Fiscal Performance

A Second Year of Over-Achieving the Deficit Target

For the second consecutive year, the deficit target for the year just completed has been over-achieved. At $7.5 billion, the interim deficit for 1996-97 is $710 million below the Budget target of $8.2 billion.

1996-97 In-Year Fiscal Performance
($ Millions)

	Budget Plan	Interim	In-Year Change
Revenue	46,660	49,143	2,483
Expense			
Programs	41,841	43,012	1,171
Restructuring and Other Charges	900	2,306	1,406
Total Program Expense	42,741	45,318	2,577
Capital	2,704	2,586	(118)
Public Debt Interest	8,745	8,709	(36)
Total Expense	54,190	56,613	2,423
Reserve	650	0	(650)
Deficit	**8,180**	**7,470**	**(710)**

- The interim results for 1996-97 incorporate recent changes to the Public Sector Accounting and Auditing Board (PSAAB) recommendations for reporting the activities of government agencies. These changes required GO Transit and the Ontario Housing Corporation (OHC) to be reclassified as government service organizations on the basis that their operations are not self-sustaining from non-provincial revenue sources.
  - The reclassification of GO Transit and OHC added $1,010 million to 1996-97 interim revenue and increased program, capital and interest expenses by a total of $1,123 million.
  - Actual results for 1995-96 have been re-stated to be consistent with these changes. The re-stated 1995-96 deficit is $8,800 million, $74 million higher than reported in Public Accounts.

- Revenue was $2,483 million higher than expected in the Budget Plan. This gain reflects both the strength of the economy and the cautious nature of the Budget projections. The gain also reflects the following factors:
  - The reclassification of the Ontario Housing Corporation and GO Transit as government service organizations; and
  - The increase in Personal Income Tax (PIT) revenues includes $742 million to take account of the under-estimate of 1995-96 PIT revenues in the 1995-96 Public Accounts.
- Total expenses were $2,423 million above the Plan, largely due to a $1,406 million increase in the Restructuring Fund for necessary restructuring investments and other charges, and a $1,123 million increase resulting from the accounting adjustment to reflect the Ontario Housing Corporation and GO Transit as government service organizations.
- The $650 million Reserve, included in the 1996 Budget to protect the Budget Plan against unforeseen risks such as unexpected and adverse changes in the economic outlook, was not used and contributed towards the over-achievement of the 1996-97 deficit target.

Ontario Opportunities Fund

The Ontario Opportunities Fund was established in the 1996 Budget to provide for debt and deficit reduction. The Fund receives savings realized from the over-achievement of a deficit target in a given fiscal year, contributions from Ontarians, and proceeds from major asset sales.

The $710 million over-achievement of the 1996-97 deficit target has been applied to the Ontario Opportunities Fund.

Ontario Opportunities Fund
($ Millions)

		Interim 1996-97
Provincial Purpose Debt at April 1, 1996		101,396
Add: Borrowing requirements to finance projected deficit of $8,180 million and investments in agencies	6,604	
Decrease in liquid reserves	(5,669)	
Increase in debt:		935
Debt before Ontario Opportunities Fund		102,331
Less:		
Ontario Opportunities Fund		
Over-achievement in 1996-97 deficit target (including proceeds from major asset sales and contributions from Ontarians*)	710	
Fund balance applied to Debt Reduction		(710)
Provincial Purpose Debt at March 31, 1997		101,621

* There were no major asset sales in 1996-97. Contributions from Ontarians amounted to $7,770 in 1996-97.

- Including the over-achievement of the 1995-96 deficit target of $508 million, the Ontario Opportunities Fund has reduced the Province's planned borrowing by a cumulative total of $1,218 million to date. The reduced borrowing saved the Province $67 million in public debt interest costs in 1996-97.

1996-97 Restructuring Charges

In addition to applying its over-achievement of the deficit target to the Ontario Opportunities Fund, the Government made significant investments in key areas to promote restructuring efforts, which will provide more efficient and effective services in such areas as health care and municipalities. Government restructuring decisions made in-year also led to one-time charges.

1996-97 Restructuring and Other Charges
($ Millions)

		Interim 1996-97
Restructuring Charges		
Health care restructuring	850	
Municipal restructuring		
Highway transfers to municipalities	350	
Municipal Capital and Operating Restructuring Fund:		
Transportation-related needs	200	
Non-profit and co-operative housing	150	
Ontario Public Service (OPS) restructuring	506	
Total Restructuring Charges		**2,056**
Other Charges		
Early retirement incentive program for teachers	250	
Total Other Charges		**250**
Total Restructuring and Other Charges		**2,306**

- In recognition of the scale of restructuring taking place in the Province, total restructuring and other charges amounted to $2.3 billion. This represents an increase of $1.4 billion above the $900 million provision initially set aside for restructuring in the 1996 Budget.

- During the year, the Government approved a strategy to significantly re-invest in Ontario's health care sector to meet the challenges faced by restructuring and re-aligning hospital services. A restructuring provision of $850 million is included in 1996-97 to account for the Government's share of costs in those individual communities where hospital restructuring and re-alignment plans exist. These actions will lead to a more efficient and better-managed health care system to better meet the needs of patients.

- Over the past year, the Government of Ontario has made a number of decisions which involve the restructuring of the municipal sector, resulting in charges totalling $700 million in 1996-97:

  - The Government has made a provision of $350 million to municipalities as a result of the transfer of highways and the associated highway connecting links to municipalities. This includes $225 million for the transfer of 3,400 kilometres of highways related to the Who Does What initiative and $125 million for previously announced highway transfers.

  - Through the Municipal Capital and Operating Restructuring Fund, the Government has also made a provision of $200 million to municipalities for transportation-related needs and $150 million to non-profit and co-operative housing providers. This will help them in dealing with the re-alignment of responsibilities that result from decisions made following receipt of the recommendations of the Who Does What panel review.

- Decisions made over the past year have also led to Ontario Public Service restructuring charges of $506 million, including $435 million for employee severance costs resulting from reductions in the size of the Ontario Public Service. A further restructuring charge of $71 million was provided for exit costs associated with the implementation of decisions concerning the transfer of certain areas of provincial responsibility to the municipal level of government. These costs include such activities as training, education and information systems.

- The Government has made a provision of $250 million in the 1996-97 fiscal year for the Province's share of the cost of an early retirement incentive for teachers.

1996-97 In-Year Revenue Changes

Total revenue in 1996-97, at $49,143 million, was $2,483 million above the $46,660 million level projected in the 1996 Budget. The strength of the economy and the cautious nature of the Budget projections both contributed to the revenue gain. Revenues in 1996-97 were also boosted by the following factors:

- The inclusion of $742 million in 1996-97 PIT to take account of higher 1995-96 PIT revenues than included in the 1995-96 Public Accounts; and
- Federal Payments, Income from Government Enterprises and Other Revenue were all increased by the reclassification of the Ontario Housing Corporation and GO Transit from Government Enterprises to government service organizations.

Summary of In-Year Changes to Revenue in 1996-97
($ Millions)

Taxation Revenue		
Personal Income Tax	1,135	
Corporations Tax	461	
Retail Sales Tax	250	
Land Transfer Tax	50	
Tobacco Tax	50	
Employer Health Tax	40	
All Other (Including Gas, Fuel and Mining Profits Taxes)	(18)	
		1,968
Federal Payments		
Social Housing	442	
Canada Health and Social Transfer	(446)	
Canada-Ontario Infrastructure Works	(85)	
All Other (Including Young Offenders and Vocational Rehabilitation)	(45)	
		(134)
Income from Government Enterprises		
Ontario Housing Corporation	232	
GO Transit	157	
Ontario Casino Corporation	(59)	
Ontario Lottery Corporation	(53)	
All Other (Including Ontario Clean Water Agency)	(21)	
		256
Other Revenue		
Sales and Rentals	324	
Miscellaneous	83	
Fines and Penalties	40	
All Other (Including Vehicle and Driver Registration Fees)	(54)	
		393
Total In-Year Revenue Changes		**2,483**

- The strength of the economy helped to raise tax revenues $1,968 million above the prudent Budget projection. Personal Income Tax revenue was $1,135 million above the Budget projection as a result of stronger-than-expected income growth in 1995 and continued employment and income growth in 1996. Of this increase, $742 million is due to higher 1995-96 PIT than was reported in the 1995-96 Public Accounts. Under PSAAB guidelines, the difference between the higher estimate and the 1995-96 Public Accounts estimate is recorded in 1996-97.

- Corporations Tax revenue was $461 million or 8.6 per cent higher, reflecting both the cautious nature of the Budget projection and the strength of corporate profits.

- Retail Sales Tax was $250 million or 2.6 per cent above projection due to stronger growth in consumer and business spending (1996 nominal consumption was 2.7 per cent, compared to 1996 Budget projection of 2.5 per cent) and the caution built into the Budget projection.

- The strong resale housing market pushed Land Transfer Tax revenue over the Budget projection by $50 million or 13.7 per cent. The number of housing resales in Ontario rose 31.3 per cent in 1996.

- Tobacco Tax was $50 million or 15.2 per cent above the Budget projection due to the increase of 0.35 cents per cigarette in the federal tobacco tax in November 1996 and stronger-than-expected sales.

- Employer Health Tax revenue was $40 million or 1.5 per cent higher, largely reflecting the cautious nature of the Budget projection.

- Increased Social Housing revenue of $442 million includes social housing payments of $305 million made to the Ontario Housing Corporation (OHC), now shown as a federal payment as a result of the accounting reclassification of the OHC to a government service organization, and $137 million in federal payments made to the Ministry of Municipal Affairs and Housing, previously reported as part of “Other” federal payments.

- Revenue from the Canada Health and Social Transfer was down $446 million from the Budget projection as a result of stronger-than-expected Personal Income Tax revenue. Under the federal Canada Health and Social Transfer allocation formula, an increase in the value of Ontario’s income tax points, transferred to Ontario in 1977, results in lower federal cash payments to the Province.

- A slowdown in the pace of construction of Canada-Ontario Infrastructure Works projects resulted in an $85 million decline in 1996-97 federal infrastructure payments compared to the Budget projection.
- Higher-than-projected Income from Government Enterprises primarily reflects the reclassification of the Ontario Housing Corporation and GO Transit, which removed a combined loss of $389 million from this revenue category. These gains were partially offset by the delay in the implementation of Video Lotteries to 1997-98 from 1996-97, which reduced income from the Ontario Lottery Corporation. Casino Corporation income was $59 million or 10.3 per cent below projection, mainly due to a one-month delay in the opening of Casino Niagara.
- Sales and Rentals revenue increased by $324 million, largely due to $316 million from the inclusion of the gross revenue of the Ontario Housing Corporation and GO Transit.
- Miscellaneous revenue was higher by $83 million or 23.5 per cent, partly as a result of OHIP subrogation. Fines and Penalties were $40 million or 40 per cent higher as a result of higher fines under the Highway Traffic Act and an underestimate of the accounts receivable balance in the 1996 Budget Outlook.

1996-97 In-Year Operating Expense Changes

Operating expenses increased $2,541 million above the Budget Plan of $51,486 million to $54,027 million, mainly due to a $1,406 million in-year increase in restructuring and other charges, and a $993 million increase arising from the accounting reclassification of GO Transit and the Ontario Housing Corporation to government service organizations.

Summary of In-Year Operating Expense Changes ($ Millions)

		Interim 1996-97
Program Expense Changes:		
Restructuring and other charges — in-year increase	1,406	
Reclassification of GO Transit and the Ontario Housing Corporation to government service organizations — increase in program expense	743	
Ontario Student Opportunities Trust Fund — increase in matching contributions to trust funds	150	
Drug Benefits program — increased utilization	114	
Ontario Student Assistance Program (OSAP) — social assistance recipients transferred to OSAP	50	
Extra forest fire fighting — Increase in Ministry of Natural Resources expenses	50	
Crop Insurance — claims for bad winter wheat harvest	49	
General Legislative Grants — increase due to only partial recovery of funds owing from the Metro Toronto and Ottawa public school boards	46	
Province-wide property assessment	20	
Interim financial assistance to the horse racing industry — offset by revenue increase	20	
OPS/OPSEU Pension expense — revised estimate	(139)	
Ontario Works Program — delay in start-up	(65)	
Other changes (net)	133	
Total Program Expense Changes		**2,577**
Public Debt Interest Changes:		
Public Debt Interest expense increase due to reclassification of GO Transit and OHC	250	
Public Debt Interest — in-year expense savings	(286)	
Total Public Debt Interest Changes		**(36)**
Total In-Year Operating Expense Changes		**2,541**

- Restructuring and other charges totalled $2,306 million, $1,406 million more than the $900 million initially allocated to the Restructuring Fund. Charges included $850 million for health care restructuring costs, $700 million for municipal restructuring costs, $506 million for OPS restructuring costs, and $250 million for the early retirement option for teachers.

- Consolidating the expenses of GO Transit and the Ontario Housing Corporation increased program expenses by $743 million from the Budget Plan, and increased public debt interest costs by $250 million.

- Response to the Ontario Student Opportunities Trust Fund initiative announced in the 1996 Budget far exceeded expectations. Consequently, the government provided an additional $150 million in matching funds for individual university and college trust funds during 1996-97, raising the total to $250 million. Monies from each fund will be used to assist academically qualified individuals who for financial reasons would not otherwise be able to attend college or university.

- The Drug Benefits program incurred an overall increase in expenses of $114 million in-year, mainly due to increased utilization under the Special Drugs Program and the Ontario Drug Benefit plan (ODB).

- Due to higher-than-anticipated costs associated with the transfer of 17,000 social assistance recipients to the Ontario Student Assistance Program (OSAP), program expenses were increased by $50 million.

- To combat an increase in forest fires in the summer of 1996, an additional $50 million in costs was incurred by the Ministry of Natural Resources.

- The payment of Crop Insurance claims for a bad winter wheat harvest resulted in an increase in expenses of $49 million.

- Grants to school boards increased by $46 million in-year as a result of the Ministry of Education and Training only having partial recovery of funds owing from the Metro Toronto and Ottawa public school boards.

- The implementation of province-wide value-based property re-assessment resulted in an increase of $20 million in Ministry of Finance expenses.

- Interim financial assistance of $20 million was provided to the horse-racing industry for Sire Stakes, overnight purse supplements and equine research. The expenditure increase was offset by an increase in provincial revenues from horse racing collected between July 1 and September 30, 1996. Effective September 30, 1996, the Race Tracks Tax Sharing Agreement was replaced by the pari-mutuel tax reduction announced in the 1996 Budget.

- The $139 million in-year decrease in OPS/OPSEU pension expense was mainly the result of the use of more current assumptions reflecting a low inflation outlook and higher earnings.

- Savings of $65 million under the Ontario Works Program were realized due to delays in the start-up of Ontario Works programs in municipalities.

- The increase in public debt interest costs of $250 million resulting from the reclassification of GO Transit and OHC was more than offset by other savings of $286 million in public debt interest costs. These savings arose from several factors: a decline in public market borrowing from the Budget estimate of $10 billion to $6.5 billion; a decline in interest rates during the year which made the prudent contingency provision included in the Budget unnecessary; and effective risk-management activities that further lowered borrowing costs.

1996-97 In-Year Capital Expense Changes

Interim capital expenses were $2,586 million, $118 million below the Budget Plan of $2,704 million. The table below summarizes the major capital changes that have occurred during the fiscal year.

Summary of In-Year Capital Expense Changes
($ Millions)

	Interim 1996-97
Reclassification of GO Transit and the Ontario Housing Corporation to government service organizations — impact on capital expenses	130
Canada-Ontario Infrastructure Works — slowdown in pace of construction	(169)
Merger of the Telecommunications Access Partnerships (TAP) with the Ontario Network Infrastructure Program (ONIP) and savings from the wind-down of the Jobs Ontario Community Action program	(32)
Courts construction — savings due to delays in construction	(18)
Northern Ontario Heritage Fund Corporation — Lower-than-anticipated spending	(18)
Other changes (Including Henley Regatta, Highway 416)	(11)
Total In-Year Capital Expense Changes	**(118)**

- Consolidating the expenses of GO Transit and the Ontario Housing Corporation (OHC) contributed to an increase of $130 million in capital expenses from the Budget Plan.
- A slowdown in the pace of construction for Canada-Ontario Infrastructure Works projects resulted in a $169 million reduction in 1996-97 expenses.
- Savings of $32 million in 1996-97 occurred as a result of the merger of the Telecommunications Access Partnerships (TAP) with the Ontario Network Infrastructure Program (ONIP) and savings from the wind-down of the Jobs Ontario Community Action program.
- Savings of $18 million in 1996-97 for court construction resulted from delays arising from design and construction modifications to various projects.
- The revised mandate of the Northern Ontario Heritage Fund Corporation in 1996-97 resulted in capital under-expenditure of $18 million.

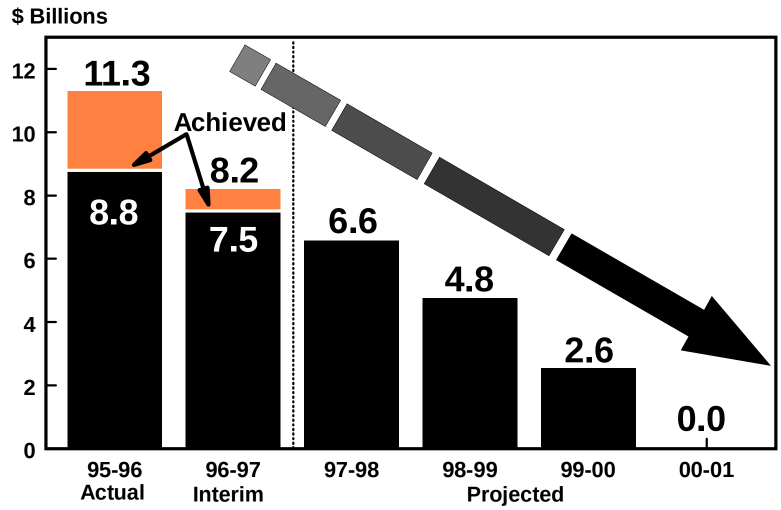
Conclusion

Since assuming office, the Government has made significant progress in addressing the untenable fiscal and economic situation it inherited.

The Province's fiscal environment, guided by the Government's Balanced Budget Plan, is now one of stability and continuous improvement. Taxes are lower, spending and debt levels are being brought under control, and for the second year in a row, the deficit target has been over-achieved. At the same time, the Government has made sizeable investments in priority areas such as health care, education, and research and development.

The Government's strong commitment to the Balanced Budget Plan will ensure that future generations of Ontarians will continue to receive necessary programs and services.

Ontario's Balanced Budget Plan on Track
Medium Term Deficit Targets



Note: The potential deficit outlook as of June 1995 of $11.3 billion and the actual deficit of $8.8 billion in 1995-96 have been restated to reflect the reclassification of GO Transit and the Ontario Housing Corporation to government service organizations.

Financial Tables and Graphs

Statement of Financial Transactions **Table B1**
($ Millions)

	Actual 1993-94	Actual 1994-95	Actual 1995-96	Interim 1996-97	Plan 1997-98
Revenue	43,674	46,039	49,473	49,143	48,400
Expense					
Programs	44,195	44,505	44,811	43,012	41,780
Restructuring and Other Charges			1,352	2,306	610
Total Program Expense	44,195	44,505	46,163	45,318	42,390
Capital	3,552	3,831	3,635	2,586	2,750
Public Debt Interest	7,129	7,832	8,475	8,709	9,190
Total Expense	54,876	56,168	58,273	56,613	54,330
Reserve	-	-	-	-	650
Deficit	**11,202**	**10,129**	**8,800**	**7,470**	**6,580**

Note: 1995-96 financial results restated to reflect reclassification of GO Transit and Ontario Housing Corporation to government service organizations.

Ontario Opportunities Fund **Table B2**
($ Millions)

		1996-97
Provincial Purposes Debt at April 1, 1996		101,396
Add: Borrowing requirements to finance projected deficit of $8,180 million and investments in agencies	6,604	
Decrease in liquid reserves	(5,669)	
Increase in debt:		935
Debt before Ontario Opportunities Fund		102,331
Less:		
Ontario Opportunities Fund		
Over-achievement in 1996-97 deficit target (including proceeds from major asset sales and contributions from Ontarians*)	710	
Fund Balance Applied to Debt Reduction		(710)
Provincial Purpose Debt at March 31, 1997		101,621

* There were no major asset sales in 1996-97. Contributions from Ontarians amounted to $7,770 in 1996-97.

Revenue **Table B3**
($ Millions)

	Actual 1993-94	Actual 1994-95	Actual 1995-96	Interim 1996-97	Plan 1997-98
Taxation Revenue					
Personal Income Tax	14,723	14,758	15,633	16,348	14,490
Retail Sales Tax	8,124	9,090	9,424	9,770	10,390
Corporations Tax	3,447	4,557	5,174	5,831	6,450
Employer Health Tax	2,665	2,640	2,695	2,705	2,640
Gasoline Tax	1,907	1,939	1,944	1,945	1,970
Fuel Tax	460	495	500	521	545
Tobacco Tax	724	322	337	380	415
Land Transfer Tax	321	372	342	415	450
Mining Profits Tax	85	86	71	54	60
Race Tracks Tax	76	84	92	49	10
Preferred Share Dividends Tax	59	56	65	73	60
Other Taxation	68	60	39	45	25
	32,659	**34,459**	**36,316**	**38,136**	**37,505**
Government of Canada					
Canada Health and Social Transfer	-	-	-	4,814	4,205
Established Programs Financing	3,790	4,059	3,820	-	-
Canada Assistance Plan	2,399	2,577	2,508	-	-
Fiscal Stabilization	227	184	367	-	-
National Training Act	76	75	55	32	-
Bilingualism Development	70	65	62	42	48
Young Offenders	59	82	61	61	59
Vocational Rehabilitation	65	61	63	64	64
Canada-Ontario Infrastructure Works	-	159	350	138	201
Social Housing	-	-	384	442	476
Other	385	345	210	303	242
	7,071	**7,607**	**7,880**	**5,896**	**5,295**
Income from Government Enterprises					
Ontario Lottery Corporation	602	631	651	683	785
Liquor Control Board of Ontario	599	637	667	714	730
Ontario Casino Corporation	-	316	422	516	740
Ontario Housing Corporation	(277)	(273)	-	-	-
GO Transit	(136)	(166)	-	-	-
Other	(23)	(77)	(10)	25	65
	765	**1,068**	**1,730**	**1,938**	**2,320**
Other Revenue					
Vehicle/Driver Registration Fees	695	751	736	760	805
Other Fees and Licences	663	686	631	659	625
Liquor Licence Board of Ontario Revenues	522	532	530	521	525
Royalties	239	223	263	266	225
Sales and Rentals	486	98	497	391	445
Fines and Penalties	141	163	143	140	90
Miscellaneous	433	452	747	436	565
	3,179	**2,905**	**3,547**	**3,173**	**3,280**
Total Revenue	**43,674**	**46,039**	**49,473**	**49,143**	**48,400**

Operating Expense **Table B4**
($ Millions)

Ministry	Actual 1993-94	Actual 1994-95	Actual 1995-96	Interim 1996-97	Plan 1997-98
Agriculture, Food and Rural Affairs	474	383	400	400	405
Crop Insurance Claims	59	26	20	74	45
Attorney General	827	830	1,085	604	654
Board of Internal Economy	137	135	206	128	119
Citizenship, Culture and Recreation	370	408	363	312	280
Community and Social Services	9,165	9,364	8,816	8,025	7,848
Consumer and Commercial Relations	175	150	140	127	94
Economic Development, Trade and Tourism	416	463	385	219	201
Education and Training	8,691	8,357	8,390	7,859	7,735
Teachers' Pension Plan	467	643	812	1,174	745
Environment and Energy	390	272	239	160	150
Executive Offices	13	10	13	13	13
Finance - Own Account	636	425	701	492	445
Public Debt Interest	7,129	7,832	8,475	8,709	9,190
Municipal Capital and Operating Restructuring Fund	-	-	-	-	137
Community Reinvestment Fund	-	-	-	-	142
Health	17,375	17,599	17,607	17,844	17,845
Health Care Restructuring	-	-	-	850	450
Intergovernmental Affairs	7	6	5	4	4
Labour	180	135	135	108	106
Management Board Secretariat	116	823	554	732	353
Public Service/OPSEU Pension Plan	737	682	685	145	145
Contingency Fund	-	-	-	-	380
Employee Severance	-	-	400	435	-
Municipal Affairs and Housing	1,559	1,487	2,421	2,457	2,020
Municipal Capital and Operating Restructuring Fund	-	-	-	150	23
Native Affairs Secretariat	14	16	16	18	9
Natural Resources	502	478	519	426	369
Northern Development and Mines	83	54	66	40	41
Office of Francophone Affairs	3	3	2	2	2
Office Responsible for Women's Issues	23	22	18	14	20
Solicitor General and Correctional Services	1,168	1,136	1,111	1,156	1,095
Transportation	608	598	1,054	1,150	715
Municipal Capital and Operating Restructuring Fund	-	-	-	200	-
Year-End Savings	-	-	-	-	(200)
Total Operating Expense	**51,324**	**52,337**	**54,638**	**54,027**	**51,580**

Capital Expense **Table B5**
($ Millions)

Ministry	**Actual 1993-94**	**Actual 1994-95**	**Actual 1995-96**	**Interim 1996-97**	**Plan 1997-98**
Agriculture, Food and Rural Affairs	13	12	5	-	-
Attorney General	3	4	-	28	53
Citizenship, Culture and Recreation	28	42	29	9	4
Community and Social Services	77	72	14	28	20
Economic Development, Trade and Tourism	113	117	113	9	-
Education and Training	432	421	559	195	450
Environment and Energy	162	271	238	203	154
Municipal Capital and Operating Restructuring Fund	-	-	-	-	40
Finance	3	3	1	-	-
Health	309	249	168	182	242
Management Board Secretariat	169	260	272	119	46
Municipal Affairs and Housing	96	310	628	308	308
Native Affairs Secretariat	15	17	9	14	12
Natural Resources	95	54	47	33	25
Northern Development and Mines	208	240	163	181	193
Solicitor General and Correctional Services	5	2	2	6	13
Transportation	1,824	1,757	1,387	1,271	1,190
Total Capital Expense	**3,552**	**3,831**	**3,635**	**2,586**	**2,750**

Ten-Year Review of Selected Financial and Economic Statistics
($ Millions)

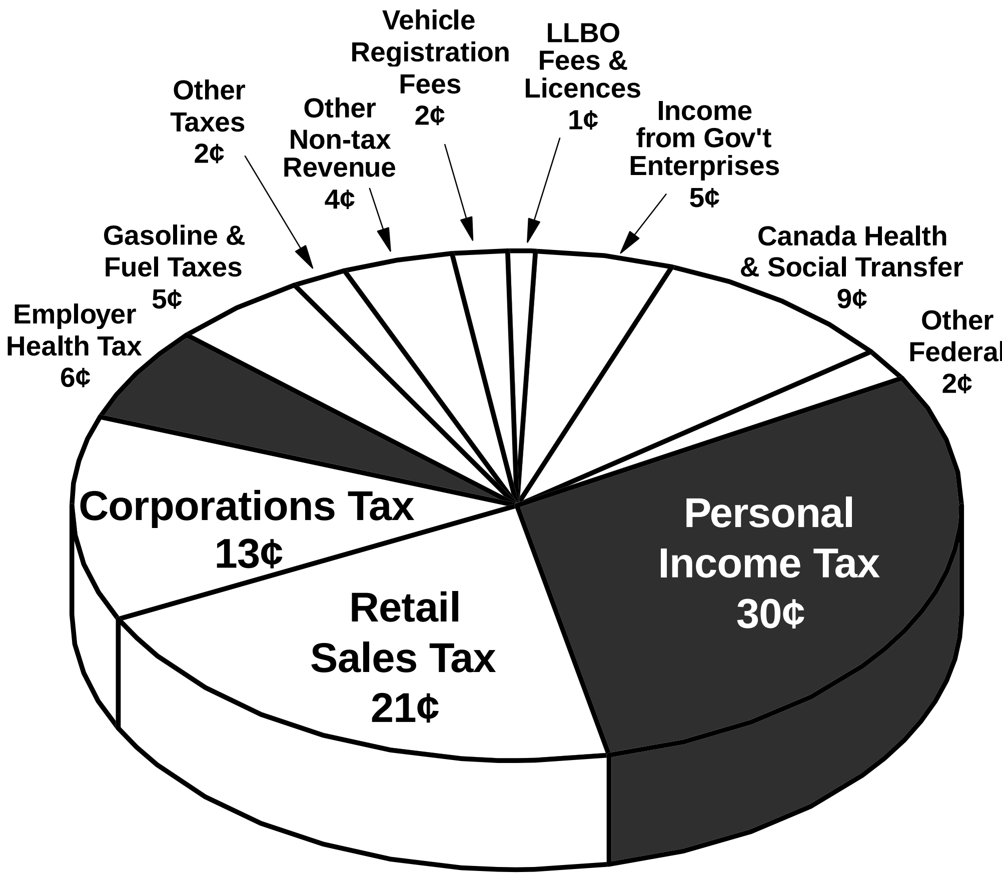
	Modified Cash Basis		
	1988-89	**1989-90**	**1990-91**
Financial Transactions			
Revenue	36,991	41,225	42,892
Expense			
Programs	31,435	33,926	38,924
Restructuring and Other Charges	-	-	-
Total Program Expense	31,435	33,926	38,924
Capital	3,268	3,392	3,221
Public Debt Interest	3,767	3,817	3,776
Total Expense	38,470	41,135	45,921
Reserve	-	-	-
Deficit/(Surplus)	**1,479**	**(90)**	**3,029**
Provincial Purpose Debt	**39,014**	**39,256**	**42,257**
Gross Domestic Product (GDP) at Market Prices	253,143	276,073	277,508
Personal Income	206,780	226,707	239,036
Population - July (000s)	9,884	10,151	10,341
Total Debt per Capita (dollars)	3,947	3,867	4,086
Personal Income per Capita (dollars)	20,921	22,333	23,115
Total Expense as a per cent of GDP	15.2	14.9	16.5
Public Debt Interest as a per cent of Revenue	10.2	9.3	8.8
Total Debt as a per cent of GDP	15.4	14.2	15.2
Cumulative Net Borrowing for Ontario Hydro			
U.S.	5,692	5,150	5,049
C.P.P.	2,097	2,748	2,748
Contingent Liability (mainly Ontario Hydro)	20,559	21,490	26,009

Note: 1995-96 financial results restated to reflect reclassification of GO Transit and Ontario Housing Corporation to government service organizations.

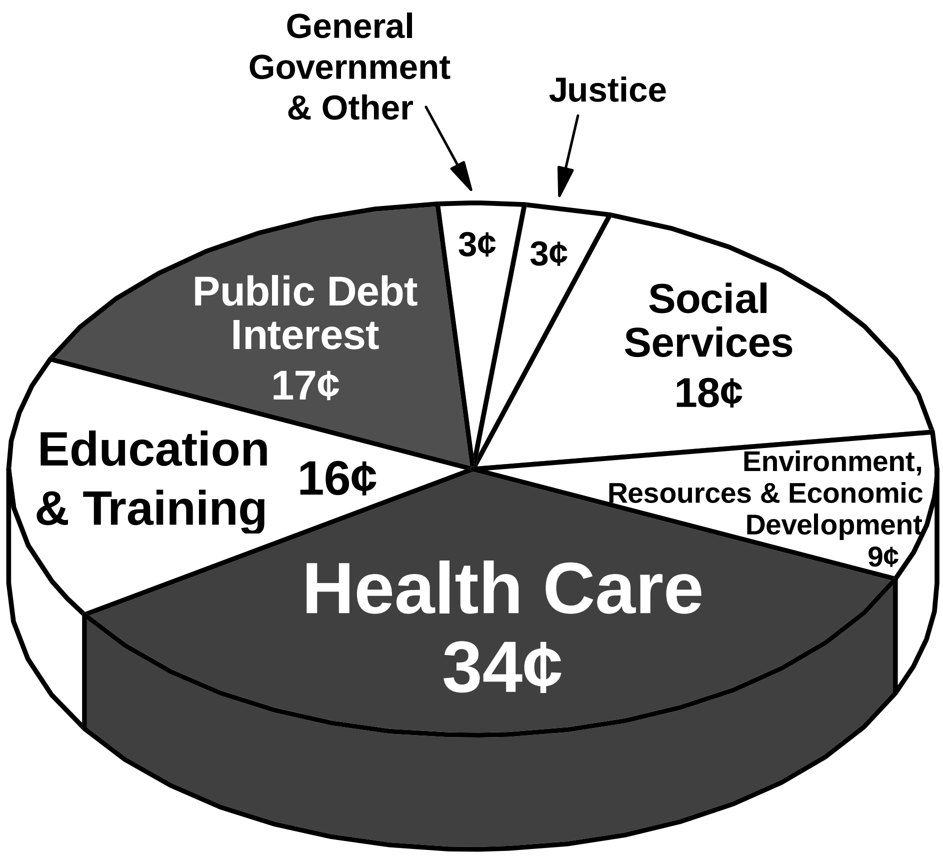
Table B6

		PSAAB Basis				
					Interim	**Plan**
1991-92	**1992-93**	**1993-94**	**1994-95**	**1995-96**	**1996-97**	**1997-98**
40,753	41,807	43,674	46,039	49,473	49,143	48,400
43,613	45,350	44,195	44,505	44,811	43,012	41,780
-	-	-	-	1,352	2,306	610
43,613	45,350	44,195	44,505	46,163	45,318	42,390
3,874	3,592	3,552	3,831	3,635	2,586	2,750
4,196	5,293	7,129	7,832	8,475	8,709	9,190
51,683	54,235	54,876	56,168	58,273	56,613	54,330
-	-	-	-	-	-	650
10,930	**12,428**	**11,202**	**10,129**	**8,800**	**7,470**	**6,580**
53,083	**68,607**	**79,439**	**88,580**	**101,396**	**101,621**	**108,481**
278,463	282,803	288,569	301,082	313,319	323,636	339,873
245,763	250,928	253,217	258,503	267,431	271,479	280,047
10,471	10,646	10,815	10,937	11,097	11,252	11,416
5,070	6,444	7,345	8,099	9,137	9,031	9,503
23,471	23,570	23,413	23,636	24,099	24,127	24,531
18.6	19.2	19.0	18.7	18.6	17.5	16.0
10.3	12.7	16.3	17.0	17.1	17.7	19.0
19.1	24.3	27.5	29.4	32.4	31.4	31.9
4,185	3,969	1,789	1,087	1,060	392	n/a
2,748	2,748	2,748	2,748	2,748	2,748	n/a
30,369	34,657	34,008	33,782	31,632	31,509	n/a

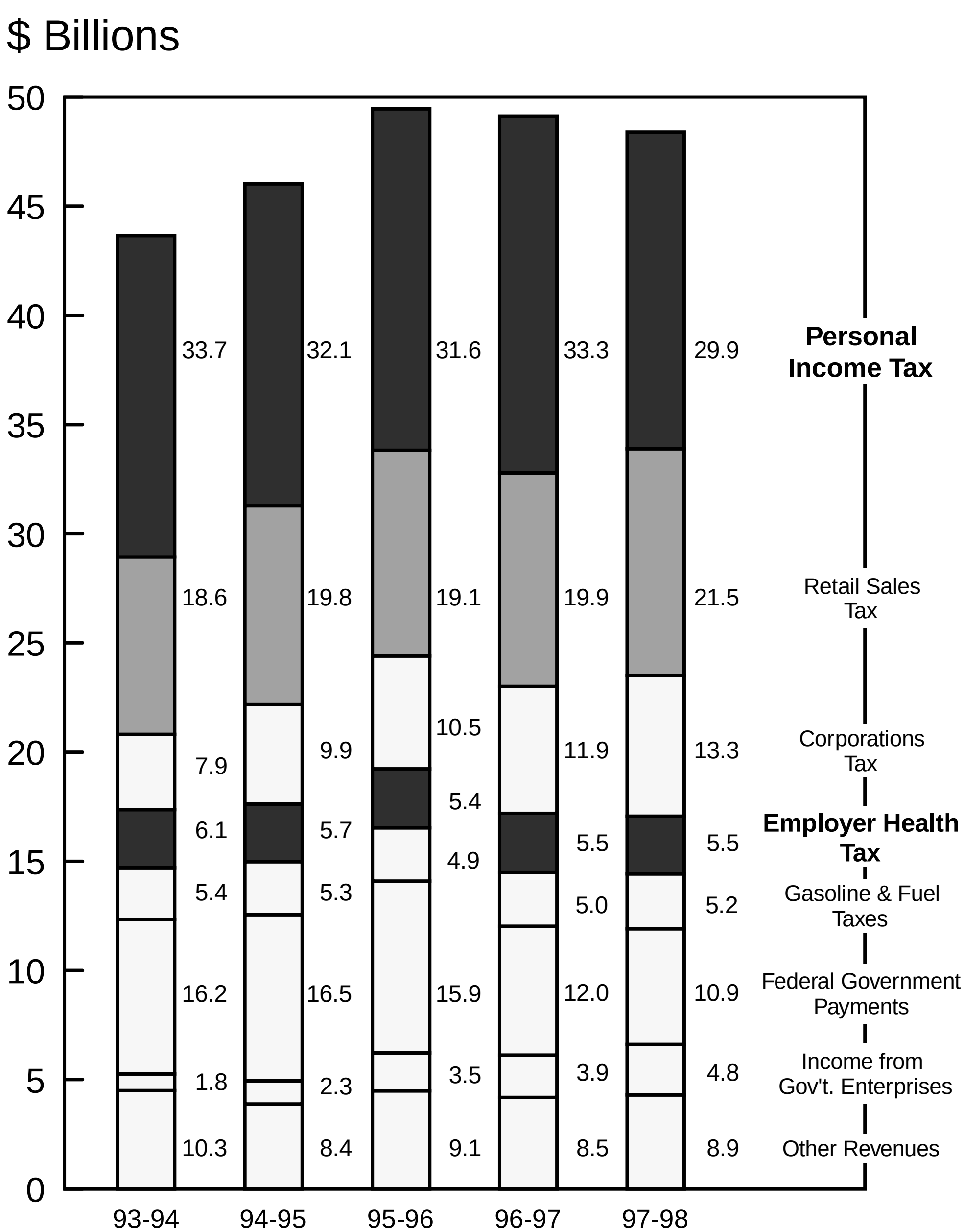
The Budget Dollar: Revenue 1997-98



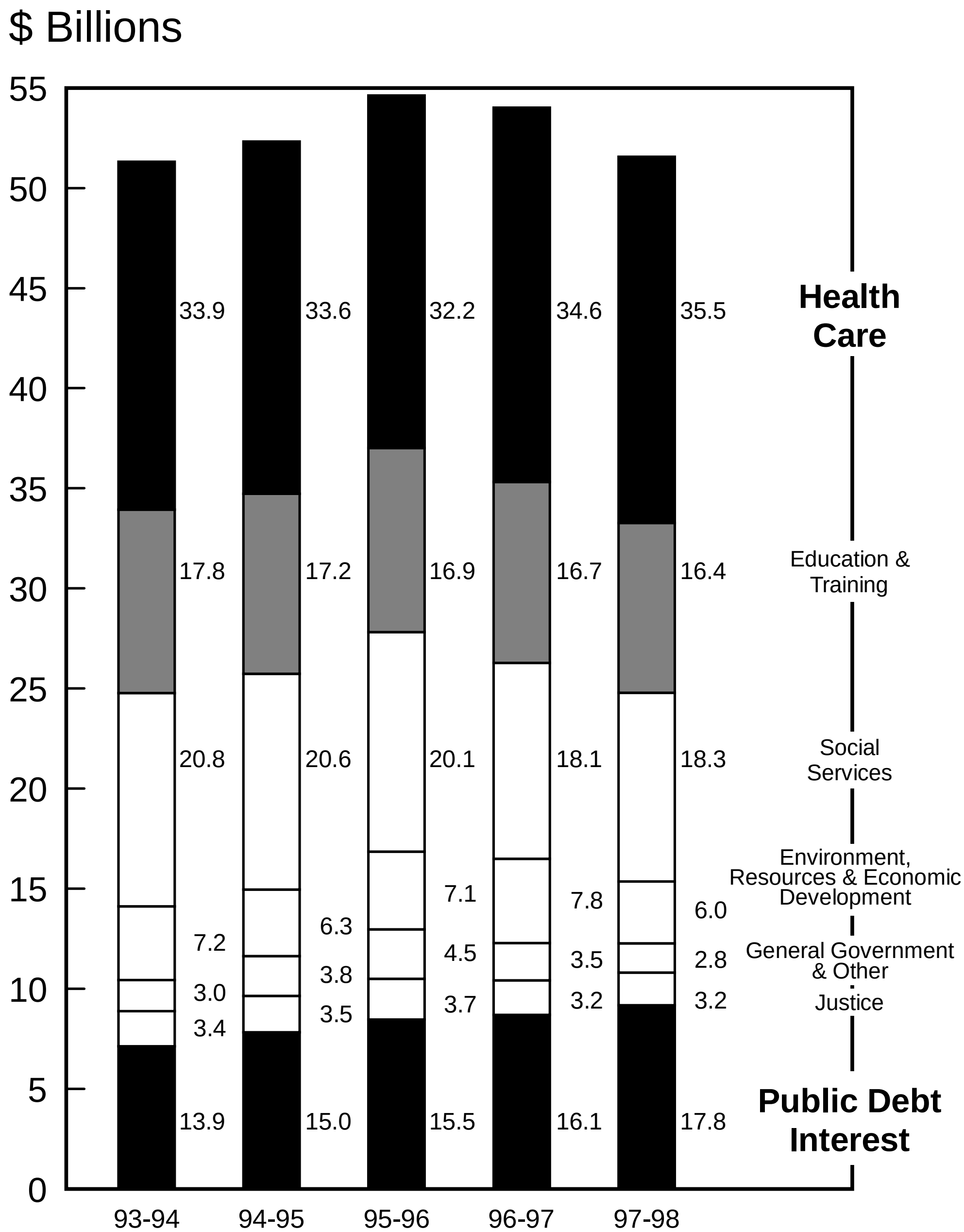
The Budget Dollar: Total Expense 1997-98



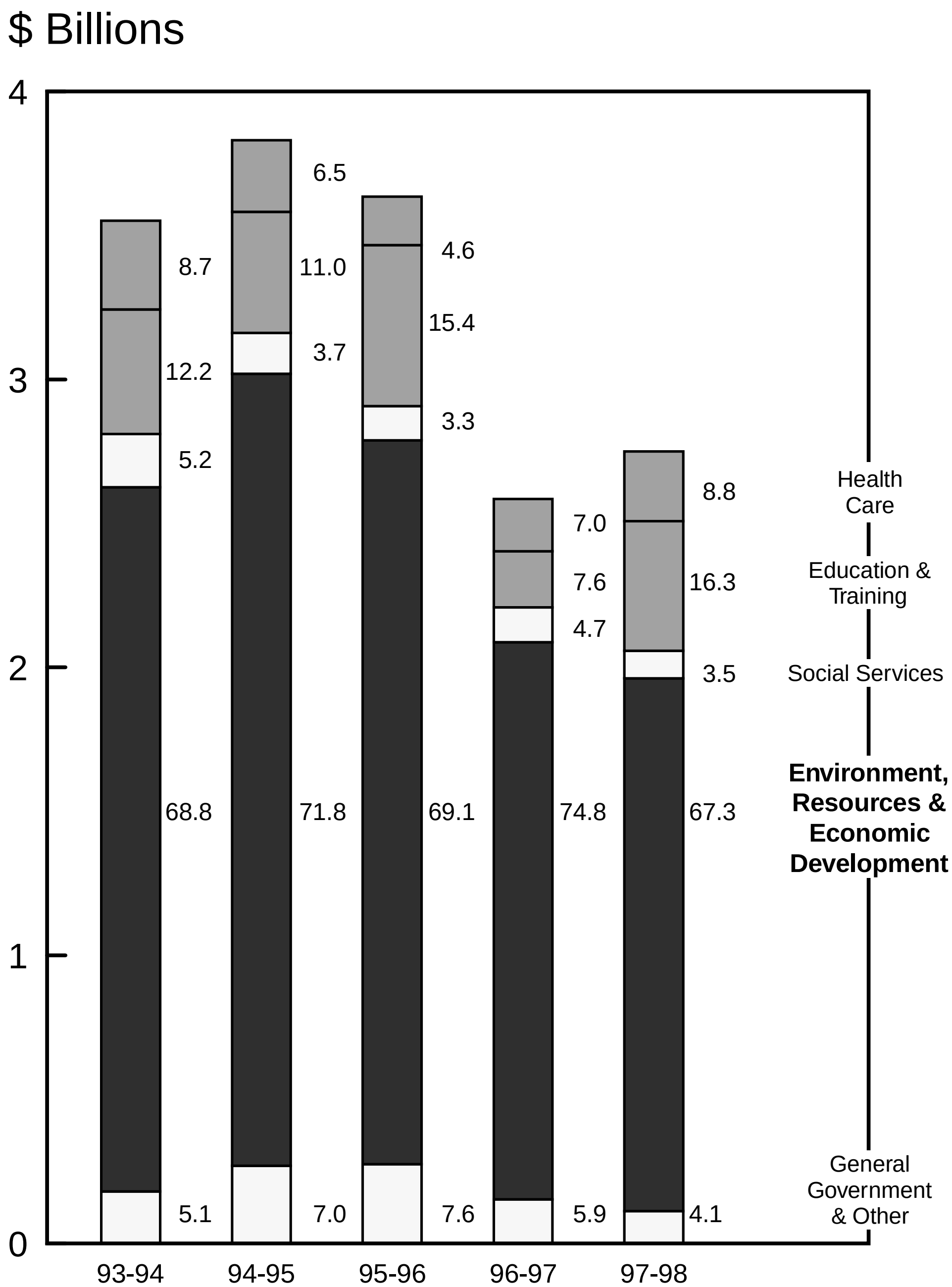
Revenue Sources by Category
Per Cent of Total
1993-94 to 1997-98



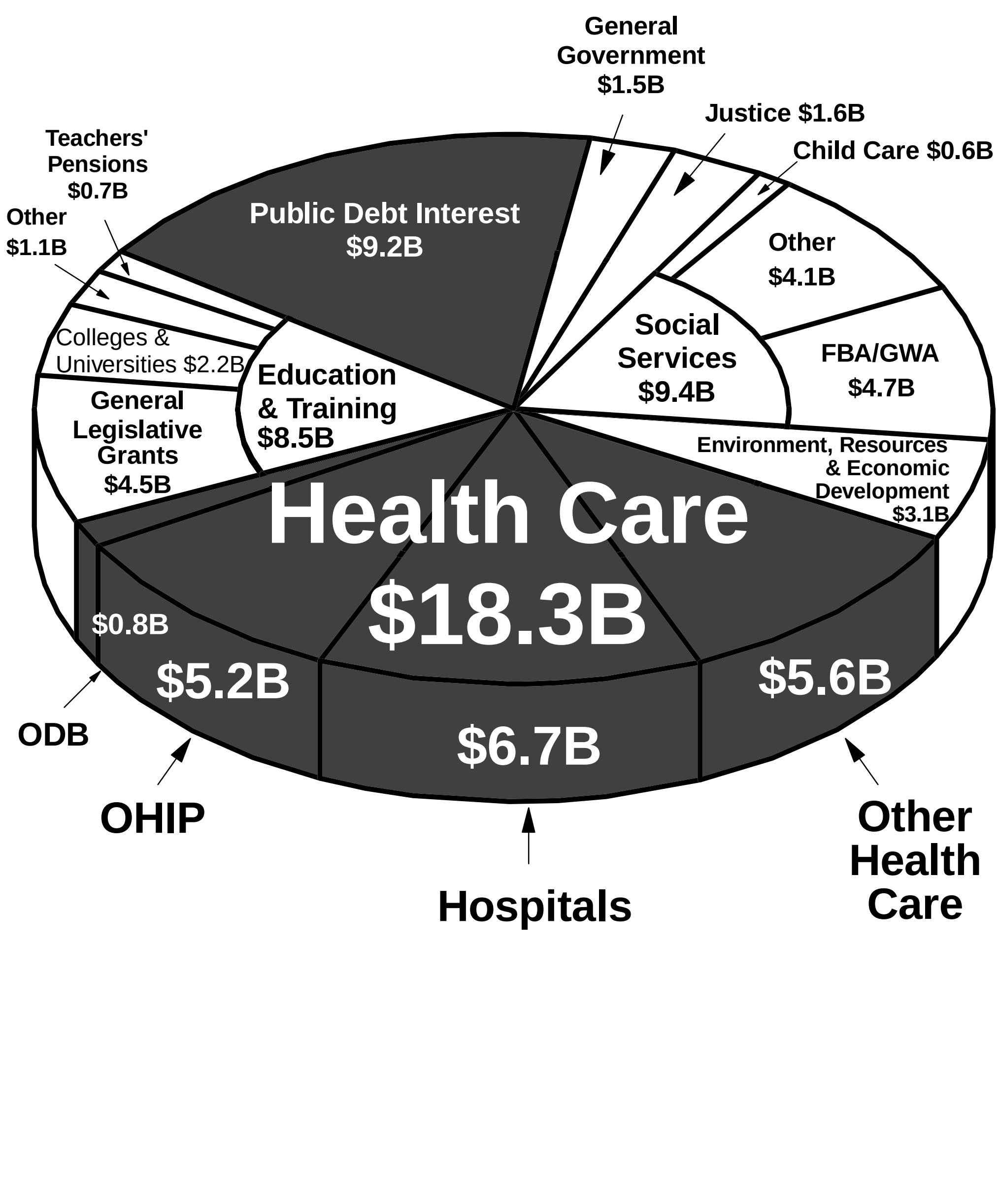
Operating Expense by Category
Per Cent of Total
1993-94 to 1997-98



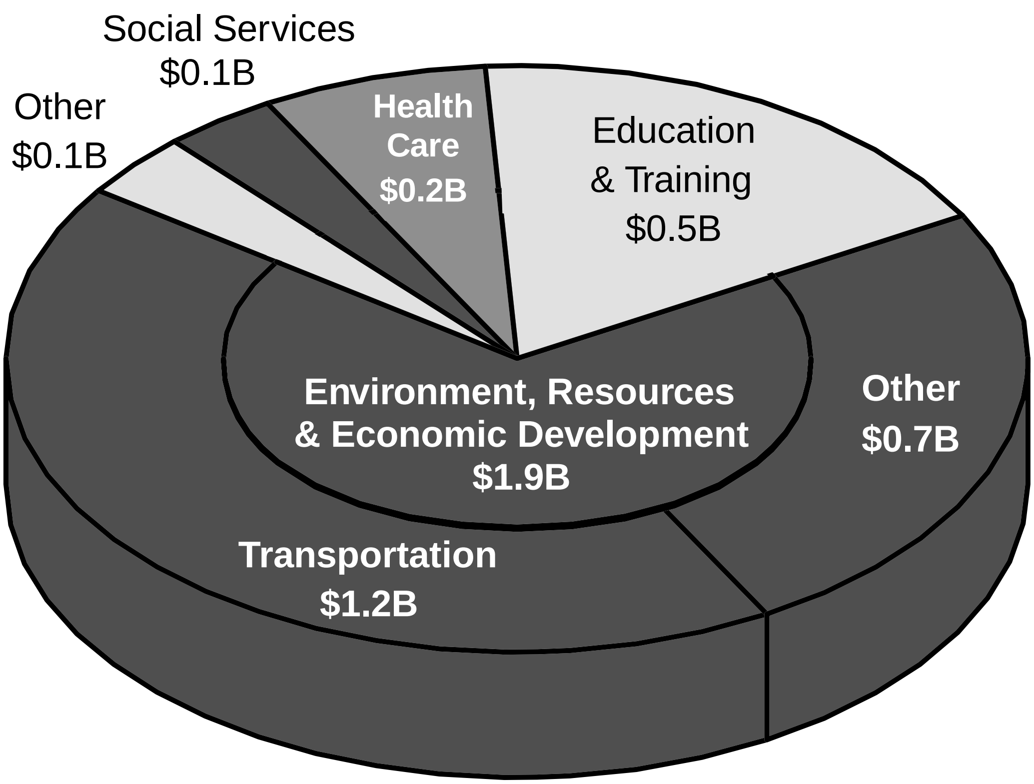
Capital Expense by Category
Per Cent of Total
1993-94 to 1997-98



1997-98 Operating Expense by Sector
($ Billions)



1997-98 Capital Expense by Sector
($ Billions)



Paper C

Details Of Revenue Measures

Details of Revenue Measures

Details of Revenue Measures

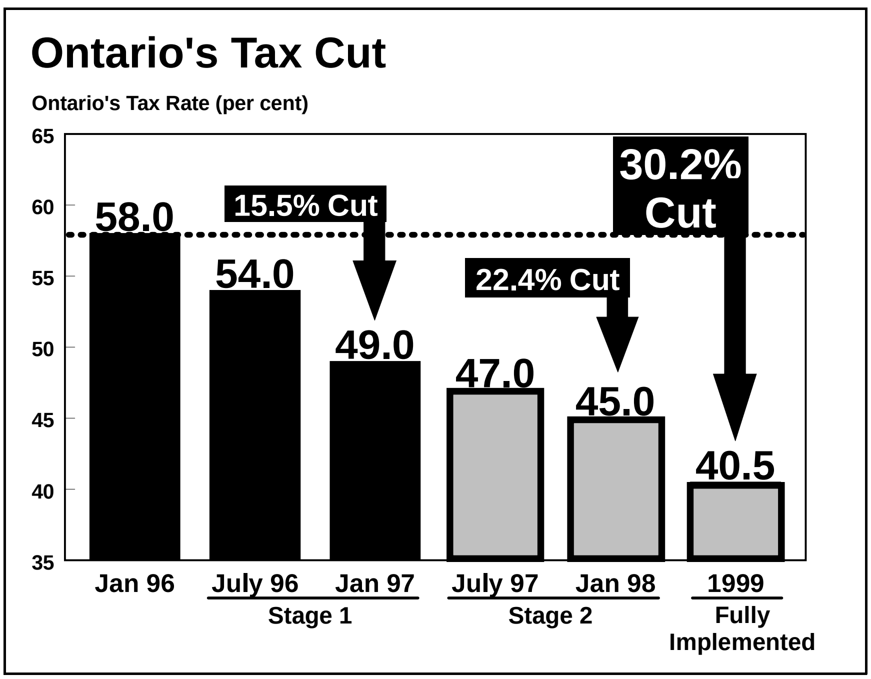
The following sections provide further information on the taxation measures outlined in the Budget. For a precise description of these measures, the reader is advised to consult the amending legislation.

Income Tax Act

Introduction

The 1996 Budget announced that Ontario personal income tax would be cut by an average of 30 per cent over three years. When the tax cut is fully implemented in 1999, all taxpayers will pay less Ontario income tax. Lower-income taxpayers will receive a tax cut of greater than 30 per cent, while higher-income taxpayers will see a tax cut of less than 30 per cent.

The personal income tax measures that took effect July 1, 1996 and January 1, 1997 implemented just over half of the promised tax cut. The 1997 Budget implements the next stage of the tax cut. By January 1, 1998, three-quarters of the 30 per cent tax rate cut will be in place.



Phases I and II of the 30 Per Cent Ontario Tax Rate Cut

- As announced in the 1996 Budget, the Ontario income tax rate for the 1996 taxation year was reduced to 56 per cent of Basic Federal Tax from 58 per cent of Basic Federal Tax.
  - From July 1, 1996 to December 31, 1996, tax was withheld at source at the rate of 54 per cent of Basic Federal Tax.
- Effective January 1, 1997, the Ontario income tax rate fell to 49 per cent of Basic Federal Tax.

Phases III and IV of the 30 Per Cent Ontario Tax Rate Cut

- For the 1997 taxation year, the Ontario personal income tax rate will be reduced to 48 per cent of Basic Federal Tax from 49 per cent of Basic Federal Tax.
  - From July 1, 1997 to December 31, 1997, tax will be withheld at source at the rate of 47 per cent of Basic Federal Tax.
- Effective January 1, 1998, the Ontario income tax rate will fall to 45 per cent of Basic Federal Tax.

Fair Share Health Care Levy

The Fair Share Health Care Levy (FSHCL) is designed to offset the cost of the employer health tax exemption and is paid only by individuals with incomes in excess of $50,980 per year. The income tax cut is reduced by the FSHCL, but even the highest income earners will experience a net tax cut. When the income tax cut and the FSHCL are fully implemented, the minimum tax cut will be 16.2 per cent.

- For the 1997 taxation year, the FSHCL will equal 20 per cent of Ontario income tax in excess of $4,555 plus 26 per cent of Ontario income tax in excess of $6,180.
  - From July 1, 1997 to December 31, 1997, the FSHCL will be calculated as 20 per cent of Ontario income tax in excess of $4,460 plus 28 per cent of Ontario income tax in excess of $6,000 for the purposes of tax withholdings at source.
- Effective January 1, 1998, the FSHCL will be calculated as 20 per cent of Ontario income tax in excess of $4,270 plus 30 per cent of Ontario income tax in excess of $5,635.

Enhanced Ontario Tax Reduction

Before Ontario's tax cut was initiated, it was expected that 900,000 Ontarians would have benefited from the Ontario Tax Reduction Program. Adjustments will be made to increase the number of people with low and moderate incomes benefiting from this program. When these adjustments are fully implemented in 1999, Ontario's enrichments will mean that an additional 30,000 families will no longer pay Ontario tax and a further 255,000 will have their Ontario tax reduced. In total, 1,185,000 Ontarians will benefit from this program, including 655,000 individuals who will have their Ontario income tax eliminated.

As the Ontario income tax rate falls, the gross benefits required to maintain the same number of beneficiaries in the Ontario Tax Reduction program also fall. Reductions in the Ontario income tax rate permit a reduction in the Ontario Tax Reduction benefit levels but an increase in the number of beneficiaries.

- For the 1997 taxation year, the basic reduction will be $171 and the amount in respect of each dependent child age 18 or under and each dependant with a disability will be $334.
  - From July 1, 1997 to December 31, 1997, the basic reduction will be $168 and the amount in respect of each dependent child age 18 or under and each dependant with a disability will be $333 for purposes of tax withholdings at source.
- Effective January 1, 1998, the basic reduction will be $161 and the amount in respect of each dependent child age 18 or under and each dependant with a disability will be $331.
- When the adjustments are fully implemented, the basic reduction will be $145 and the amount in respect of each dependent child age 18 or under and each dependant with a disability will be $325.

Child Care Tax Credit

Families with low incomes who incur child care expenses will be eligible for a refundable Ontario Child Care Tax Credit (CCTC).

- Effective for the 1997 taxation year, the CCTC will be 25 per cent of qualifying child care expenses, to a maximum of $400 for each child under age 7. The value of the credit will be reduced by 4 per cent of family net income in excess of $20,000.
  - The credit will be paid as part of the 1997 tax refund.
- The CCTC will be enriched in subsequent taxation years.

- Child care expenses that qualify for income tax purposes will be eligible for the Ontario CCTC. To be eligible, child care expenses must be incurred to enable parents to work or attend school full-time and must be supported with receipts.

Concordance with the Income Tax Act (Canada)

- The Income Tax Act will be amended to conform with changes to the Income Tax Act (Canada).

A Better Way to Collect Ontario Income Taxes

The Canada-Ontario Tax Collection Agreement has governed the collection of Ontario's personal income tax for the last 35 years. This agreement gives the federal government substantial control over how Ontario's income tax is applied and requires Ontario to get federal approval for changes that only affect Ontario tax. In exchange, Ontario makes no direct payment to the federal government for the service of collecting its tax.

While there have been some revisions over time, rules and provisions established in 1962 largely define the partnership. These rules are no longer working.

Changes that Ontario has proposed to its income tax that reflect reasonable and legitimate Provincial objectives have been rejected by the federal government. In a little more than a year, the federal government has refused to administer:

- a Fair Share Health Care Levy, like the one proposed in the *Common Sense Revolution*, on the income earned by high-income people. Instead, Ontario has had to resort to the more complicated surtax approach, with different results than the Government had originally proposed;
- a simple check off box on Page 4 of the income tax return that would easily allow taxpayers to donate tax refunds to reduce the debt of the Province; and
- a tax credit to ensure that taxpayers making donations of their current income or more to Crown foundations could get full tax relief in the year in which they made the donation.

These examples do not define an income tax system that reflects the needs of Ontario today and in the coming years. The current agreement impairs the Government of Ontario's ability to carry out the policy mandate that it believes is in Ontarians' interests. In saying "no" to the policies noted above, the federal government is, in effect, defining what it thinks is in Ontario's interest.

The current Tax Collection Agreement also makes Ontario vulnerable to federal tax base changes which automatically affect Ontario revenues. The terms of the current agreement leave the Province no choice but to automatically adopt most federal income tax changes, including those that the Province does not support.

There are also costs to Ontario taxpayers from participating in the tax collection agreement. For example, the federal government collects over $1.5 billion in Ontario income tax before remitting any of it to Ontario. This delay results in higher interest costs to the Province, which must be paid for by Ontario taxpayers. The federal government also retains fines, interest and penalties collected on Ontario tax owing. Ontario taxpayers should not have to bear these costs, which we believe are well over $100 million per year.

Ontario will be examining alternatives to the current Tax Collection Agreement in the coming months. Expert advice will be sought from the private sector on how Ontario could collect its own tax efficiently and at lower cost. It is not clear to Ontario that the current federal approach to defining the tax base and to collecting the resulting tax is the most effective and least costly alternative. The Government believes that the private sector will have a number of useful suggestions for, and a role to play in, structuring and collecting an Ontario income tax.

All enquiries regarding personal income tax changes should be directed to:

Taxation Policy Branch
Ministry of Finance
5th Floor, Frost Building South
7 Queen's Park Crescent East
Toronto, Ontario
M7A 1Y7

English: 1-888-562-4769 or 1-888-JOB-GROW
French: 1-888-562-4769 or 1-888-JOB-GROW
Teletypewriter (TTY): 1-800-263-7776

Small Business Development Corporations Act

Conclusion of Program

The Government will conclude the five year phase-out of the Small Business Development Corporations program, originally announced in 1993.

- Effective May 6, 1997, all remaining Small Business Development Corporations will be deregistered.
- To encourage the retention of invested capital in Ontario small businesses, Small Business Development Corporations in compliance with program requirements on May 5, 1997 will not be required to repay investment incentives.

All enquiries regarding the Small Business Development Corporations program changes should be directed to:
Tax Credits and Grants Branch
Ministry of Finance
P.O. Box 624
33 King Street West
Oshawa, Ontario
L1H 8H8
English: 1-888-562-4769 or 1-888-JOB-GROW
French: 1-888-562-4769 or 1-888-JOB-GROW
Teletypewriter (TTY): 1-800-263-7776

Retail Sales Tax Act

Changes to the Retail Sales Tax Act will extend tax relief for farmers, provide fair tax treatment to purchasers of computer programs, and improve support for investment in research and development and manufacturing equipment.

Extending the Rebate on Building Materials for Farmers

- The temporary rebate for retail sales tax paid on building materials purchased by farmers, which was announced in the 1996 Budget, will be extended until March 31, 1998. The deadline for submitting claims will be extended to December 31, 1998.

- Persons engaged in the business of farming who contract out their building project can apply for a rebate of 3 per cent of the total contract price where the price includes the federal goods and services tax (GST), or 3.4 per cent of the contract price if GST is not included. Alternatively, they can claim a rebate on the actual retail sales tax paid if documentation is submitted proving the payment of retail sales tax by the contractor on the materials used.

Application of Retail Sales Tax to Computer Programs

- Effective for purchases after May 6, 1997, the application of Ontario's retail sales tax to computer programs will be clarified in legislation. The term "computer program" will be defined in the Retail Sales Tax Act. The policy of taxing pre-written computer programs and exempting custom computer programs remains unchanged.
- Retail sales tax at 8 per cent will apply to a computer program that is:
  - sold off-the-shelf and pre-packaged with an assumed or adhesion licence agreement;
  - transferred from a seller to a purchaser by disk, tape, chip, electronic or other means; or
  - originally produced for a specific purpose for a purchaser and subsequently resold.
- Retail sales tax will not apply to:
  - custom computer programs that are new and distinct computer programs designed and developed solely to meet the specific requirements of a particular person;
  - a custom computer program where a related corporation's resources are used to fulfil the customer's requirements; or
  - significant modifications to a computer program as prescribed by the Minister, to meet the requirements of a specific person, such as:
    - modifications after a sale, purchased for more than the price paid for the pre-written program in its unmodified form; or
    - modifications to a pre-written program as a condition of sale where the purchase price is more than double the price of the unmodified program.

Improving the Exemption for R&D Equipment

- Currently, qualifying equipment used by manufacturers for a combination of manufacturing and research and development activities is not exempt from retail sales tax even though equipment that is used primarily in manufacturing or exclusively in research and development does qualify. Effective for purchases after May 6, 1997, equipment used exclusively by manufacturers for a combination of these activities will be exempt from retail sales tax.
- In addition, effective for purchases after May 6, 1997, equipment used exclusively for research and investigation by non-profit medical research facilities will be exempt.

All enquiries regarding retail sales tax changes should be directed to:

Retail Sales Tax Branch
Ministry of Finance
P.O. Box 623
33 King Street West
Oshawa, Ontario
L1H 8H7
English: 1-888-562-4769 or 1-888-JOB-GROW
French: 1-888-562-4769 or 1-888-JOB-GROW
Teletypewriter (TTY): 1-800-263-7776

Land Transfer Tax Act

Land Transfer Tax Refund for First-Time New Home Buyers Extended

Ontario's successful temporary program to encourage first-time home buyers to purchase new homes is being extended.

- In accordance with the announcement made on March 31, 1997, the land transfer tax refund on purchases of newly constructed homes by first-time home buyers will be extended to March 31, 1998.
- The conditions for this refund include the following:
  - the agreement of purchase and sale must be entered into on or before March 31, 1998 (previously March 31, 1997);
  - the purchaser must occupy the newly constructed home as his or her principal residence by December 31, 1998 (previously December 31, 1997);

  - the transfer must be registered and the application for the refund must be made by December 31, 1999 (previously December 31, 1998).

- The refund is available to first-time purchasers of newly constructed homes. The amount of the refund is the entire amount of tax paid or payable, up to a maximum of $1,725.

Elimination of the Higher Non-Resident Rate of Tax

The tax premium on foreign investments, first introduced in 1974, is no longer needed.

- Effective after May 6, 1997, the Land Transfer Tax Act will be amended to eliminate the higher 20 per cent rate of tax paid by non-residents of Canada on the purchase of farm or agricultural land, recreational land, woodlands and orchards.
- Non-residents of Canada will now pay land transfer tax on the purchase of all land at the same rate as residents.

Treatment of Tax Deferrals

- The deferred tax will be cancelled and any security provided by the non-resident will be returned where:
  - a deferral of the non-resident portion of the tax had been granted on or before May 6, 1997 and the deferral had not yet expired; or
  - an application to defer the tax was received on or before May 6, 1997.
- The deferred tax and interest will also be cancelled and any security provided by the non-resident will be returned where, on or before May 6, 1997:
  - a) the non-resident has met the terms of the original deferral; or
  - b) the conditions for the deferral could not be met due to circumstances beyond the control of the non-resident; or
  - c) the non-resident has a long-standing presence in Ontario.
- Where none of the conditions described above in a), b) or c) apply, the non-resident will have the option of:

- paying a one-time lump sum of 50 per cent of the deferred tax and interest owing on the deferred tax; or

- having a maximum seven-year extension. At the end of the extension period, if the non-resident has not met the deferral conditions, the higher rate of tax and interest will be paid.

◆ A non-resident will be considered to have a long-standing presence in Ontario if:

- the non-resident owned Ontario assets other than the land in question at least equal in value to the value of the consideration paid for the land subject to the deferral in the 12 months prior to May 6, 1997; and

- carried on an active business in Ontario and employed at least five full-time employees in the province for at least one year prior to May 6, 1997.

All enquiries regarding land transfer tax changes should be directed to:

Motor Fuels and Tobacco Tax Branch
Ministry of Finance
P.O. Box 625
33 King St. West
Oshawa, Ontario
L1H 8H9
English: 1-888-562-4769 or 1-888-JOB-GROW
French: 1-888-562-4769 or 1-888-JOB-GROW
Teletypewriter (TTY): 1-800-263-7776

Corporations Tax Act

Ontario Business-Research Institute (OBRI) Tax Credit

To foster world-class research institutions in Ontario and to promote partnerships between business and Ontario post-secondary educational institutions, the Province is introducing the Ontario Business-Research Institute Tax Credit. Ontario corporations will be able to claim a 20 per cent refundable tax credit for research and development (R&D) expenditures incurred in Ontario as part of an eligible research institute contract.

To assist small business, qualifying expenditures will be eligible for both the 20 per cent OBRI tax credit and the 10 per cent Ontario Innovation Tax Credit (OITC) for a combined tax credit of 30 per cent.

Eligible Research Institute Contract

- An eligible research institute contract will be an R&D contract between a corporation carrying on business through a permanent establishment in Ontario and an eligible research institute, where the R&D is related to a business the corporation carries on in Canada and:
  - the R&D is undertaken by the eligible research institute on the corporation's behalf; or
  - the corporation makes payments to be used by the eligible research institute for the R&D which the corporation is entitled to exploit.
- As part of the contract, the eligible research institute binds itself to undertake the R&D directly in Ontario.
- To qualify for this credit, corporations must obtain an advance ruling that the terms of the contract meet the criteria of an eligible research contract.

Eligible Research Institute

- For R&D that is undertaken on the corporation's behalf, eligible research institutes will be:
  - provincially (Ontario) assisted post-secondary institutions (such as a university or a college of applied arts and technology) and hospital research institutes; and
  - prescribed Ontario non-profit research organizations.
- Where the corporation makes payments to an eligible research institute to be used for R&D that the corporation is entitled to exploit, the institutes listed above will be eligible research institutes, provided they are also approved for purposes of subparagraph 37(1)(a)(ii) of the Income Tax Act (Canada).

Qualifying Expenditures

- Qualifying expenditures will be expenditures in respect of scientific research and experimental development activities as defined in the Income Tax Act (Canada), provided that the activities are carried on in Ontario by an eligible research institute under an eligible research institute contract.
- Total qualifying expenditures eligible for the tax credit will be limited to $20 million per year per associated group of corporations (prorated for taxation years straddling May 6, 1997).

Calculation of the OBRI Tax Credit and Interaction with the R&D Super Allowance and the OITC

- Corporations will receive a refundable tax credit equal to 20 per cent of qualifying expenditures in respect of an eligible research institute contract.
- When calculating a corporation's R&D Super Allowance, the OBRI tax credit claimed in a taxation year will reduce the expenditures eligible for the Super Allowance in the taxation year and the expenditure base for subsequent years.
- Qualifying expenditures for the OBRI tax credit will not be reduced by any OITC claimed in respect of the same expenditures.
- Qualifying expenditures for the OITC will not be reduced by OBRI tax credits claimed in respect of the same expenditures.
- Qualifying expenditures for the OBRI tax credit will not be reduced by federal R&D investment tax credits claimed under subsection 127(9) of the Income Tax Act (Canada) in respect of the same expenditures.
- For partnerships, the OBRI tax credit will be shared by partners in a manner similar to the R&D Super Allowance.

Restrictions on Eligibility

- Where a contract is entered into after May 6, 1997 and can reasonably be considered to be in respect of R&D expenditures covered in an agreement or contract entered into on or before May 6, 1997, the new contract will not be an eligible research contract.
- To target the OBRI tax credit, various rules will be implemented to:
  - prevent buy-backs of intellectual property rights arising from the results of the R&D;
  - impose restrictions on expenditures made in kind;
  - impose restrictions on contributions by the eligible research institute in respect of an R&D contract; and
  - impose restrictions on arrangements involving the transfer of employees from a corporation to an eligible research institute to carry out R&D under a particular eligible research institute contract.

Refunds

- The OBRI tax credit will be applied against outstanding Ontario tax liabilities and the excess will be refundable.

Effective Date

- The OBRI tax credit will be effective for qualifying expenditures incurred after May 6, 1997 in respect of eligible research institute contracts entered into after May 6, 1997.
- Qualifying expenditures incurred after May 6, 1997 in respect of long-term contracts entered into before May 7, 1997 will also qualify. To qualify as a long-term contract, the contract must continue to at least May 7, 1999.

Ontario New Technology Tax Incentive (ONTTI)

To encourage the development and transfer of new technology, Ontario will provide an immediate 100 per cent deduction of the eligible cost of qualifying intellectual property that is acquired by a corporation in a qualifying intellectual property transfer.

Qualifying Intellectual Property Transfers

- A qualifying intellectual property transfer will be an acquisition of knowledge in the form of know-how, techniques, processes or formulas from an unrelated person for the purpose of implementing an innovation or an invention in a business of the corporation that is carried on in Ontario.

Qualifying Intellectual Property

- Qualifying intellectual property will be a patent (either domestic or foreign), a licence, a permit, know-how, a commercial secret or other similar property constituting knowledge, but not a trademark, an industrial design, a copyright or other similar property constituting the expression of knowledge.
- The property must be used in a process of implementing an innovation or invention where the efforts to implement that innovation or invention are carried on exclusively in Ontario.
- Qualifying intellectual property must be used for at least the entire period of time covering the process of implementing the innovation or invention.
- The property must be used within a reasonable period of time after its acquisition in the process of implementing the innovation or invention.

Eligible Costs

- Eligible costs will be the capital costs of the qualifying intellectual property.
- Where a corporation allocates part of its taxable income to another jurisdiction, the eligible costs will be grossed-up by the Ontario allocation factor to ensure that the full value of the deduction is realized.
- Total eligible costs will be limited to $20 million per year per associated group of corporations before the gross-up (prorated for taxation years straddling May 6, 1997).

ONTTI Deduction

- Eligible costs, including the gross-up, will be deductible from income tax in the year the property is acquired.
- Special recapture rules will apply when qualifying intellectual property is disposed of or not used as required above.

Effective Date

- The ONTTI will apply to contracts entered into after May 6, 1997 in respect of eligible costs incurred after August 31, 1997.

Capital Tax Deduction for R&D Expenditures and ONTTI Costs

Ontario will reduce the capital tax burden of corporations that have incurred R&D and ONTTI expenditures but have not claimed them for income tax purposes.

- Currently, a corporation's Ontario paid-up capital is reduced by the corporation's R&D expenditures only where they are deducted for income tax purposes.
- Effective for taxation years ending after May 6, 1997, the capital tax deduction for R&D expenditures under the Corporations Tax Act will be permitted in the year in which these expenditures are deductible for income tax purposes.
- Additionally, a capital tax deduction for costs under the ONTTI will be permitted in the year in which these costs are deductible for income tax purposes.

Eliminating Barriers to Technology Transfers: The Add-Back Rule

Ontario will remove barriers to technology transfers that have existed for decades.

- The Corporations Tax Act will be amended to correspond to the federal treatment of royalty payments made to non-residents in respect of:
  - computer software; and
  - patents and information concerning industrial, commercial or scientific experience (know-how), including designs, models, plans, secret formulas and processes.
- As a result, Ontario's 5/15.5 add-back rule will not apply in respect of these royalty payments to related non-residents where the Income Tax Act (Canada) or a tax treaty exempts the payment from federal withholding taxes.
- This change will be effective for royalties incurred after December 31, 1997.

Ontario Computer Animation and Special Effects Tax Credit

A new 15 per cent refundable tax credit will be provided to support Ontario computer animation and special effects activities.

- Effective July 1, 1997, Ontario will provide a tax credit to corporations for Ontario labour expenditures incurred in respect of computer animation and special effects activities carried out in Ontario for use in film or television productions.
- The Ontario Computer Animation and Special Effects (OCASE) Tax Credit will be a refundable tax credit earned at a rate of 15 per cent of qualifying labour expenditures.

Eligible Computer Animation and Special Effects Activities

- Eligible computer animation and special effects activities will be prescribed activities carried out in Ontario in respect of digital animation and digital visual effects for use in film or television productions.
- Film and television productions must be for commercial exploitation and not in genres that are "excluded productions" for purposes of the Ontario Film and Television Tax Credit (OFTTC).

- If the activities are in respect of a television production, the production must be suitable for initial broadcast in a time slot that is a minimum of 30 minutes.

Qualifying Corporations

- A qualifying corporation will be a Canadian corporation that:
  - is performing eligible computer animation and special effects activities either for a film or television production that it is producing or under contract with a producer of a film or television production;
  - has a permanent establishment in Ontario; and
  - is not exempt from taxation under the Corporations Tax Act.

Qualifying Labour Expenditures

- Qualifying labour expenditures for the OCASE tax credit will be equal to the lesser of:
  - Ontario labour expenditures for eligible computer animation and special effects activities; and
  - 48 per cent of the prescribed cost of eligible computer animation and special effects activities.
- Ontario labour expenditures will be expenditures incurred after June 30, 1997 in respect of payments made to persons in Ontario who are performing eligible computer animation and special effects activities.

Tax Credit Calculation

- The OCASE tax credit will be calculated at a rate of 15 per cent of qualifying labour expenditures.
- The OCASE tax credit will be subject to an annual maximum of $500,000 per associated group of corporations (prorated for taxation years straddling June 30, 1997).
- The OCASE tax credit will be applied against outstanding Ontario tax liabilities and any excess will be refundable.

Interaction of the OCASE Tax Credit and the OFTTC

- A corporation that is a “qualifying production company” for the OFTTC and a “qualifying corporation” for the OCASE tax credit will be eligible for the OFTTC and the OCASE tax credit for those expenditures that qualify for both, without reduction of either tax credit.

Certification

- A certificate of eligibility must be obtained from the Ontario Film Development Corporation.
- The certificate of eligibility must be filed with the qualifying corporation's tax return under the Corporations Tax Act when the OCASE tax credit is claimed.

Enhancement to the Ontario Film and Television Tax Credit

To maintain Ontario's competitive advantage in the film and television production industry and to promote employment in this sector of Ontario's economy, the Ontario Film and Television Tax Credit (OFTTC) announced in the 1996 Ontario Budget is being enhanced in two respects:

- for qualifying labour expenditures incurred after May 6, 1997, the OFTTC rate will be increased from 15 per cent to 20 per cent; and
- the annual OFTTC limit for corporations or associated groups of corporations will be increased from $2 million to $3 million for productions commencing after 1996 with qualifying labour expenditures incurred after May 6, 1997; this increase will be prorated for 1997.

The OFTTC is a refundable tax credit available to qualifying production companies for producing eligible film and television productions in Ontario. The credit is calculated on the lesser of Ontario labour expenditures and 48 per cent of the eligible cost of the production.

First-time producers will continue to be eligible for an enhanced rate of 30 per cent on the first $240,000 of qualifying labour expenditures.

Ontario Book Publishing Tax Credit

To support first-time Canadian authors, Ontario will provide a refundable tax credit to eligible Ontario book publishing companies for qualifying expenditures in respect of eligible literary works by first-time Canadian authors. The tax credit will be at a rate of 30 per cent on pre-production and promotional costs and 15 per cent on production costs.

Eligible Ontario Book Publishing Companies

- An eligible Ontario book publishing company will be a Canadian-controlled corporation with a permanent establishment in Ontario, provided that:

- its principal business is book publishing carried on primarily in Ontario;
- it is not controlled directly or indirectly by the first-time Canadian author or any person related to the author; and
- it is not exempt from tax under the Corporations Tax Act.

Eligible Literary Works

◆ An eligible literary work will be a non-periodical publication that is categorized as fiction, poetry, creative nonfiction, biography, trade nonfiction or a children's book and that is:

- authored material of at least 48 printed pages in length (except in the case of children's books);
- bound as a paperback, trade paperback or hardback;
- not a self-published title; and
- not a publication that is prescribed as ineligible.

First-Time Canadian Authors

◆ A first-time Canadian author will be a Canadian citizen or landed immigrant, ordinarily residing in Canada with no previously published titles in the particular category of eligible literary work that is being published.

Qualifying Expenditures

◆ Qualifying expenditures will be:

- non-refundable author advances and salaries and other pre-production costs for activities carried out principally in Ontario, including salaries for editing, design and project management, freelance costs for editing, design and research, artwork, development of prototype, and set-up and typesetting;
- 50 per cent of production costs for activities carried out principally in Ontario, including printing, binding and assembly; and
- promotional costs incurred within 12 months of the publication date, including advertising, promotional tours of the author and sales salaries but not meals and entertainment.

Tax Credit

- The Ontario Book Publishing Tax Credit will be calculated at a rate of 30 per cent of qualifying expenditures incurred in a taxation year.
- The maximum tax credit available to an eligible Ontario book publishing company will be limited to $10,000 per literary work.
- The credit will be applied against outstanding Ontario tax liabilities and any excess will be refundable.

Effective Date

- The Ontario Book Publishing Tax Credit will be effective for publishing contracts entered into after May 6, 1997.

Improvements to the Co-operative Education Tax Credit

To foster greater opportunities for co-operation between businesses and post-secondary educational institutions in providing valuable job experience for Ontario students enrolled in leading-edge technology programs, Ontario will enhance the Ontario Co-operative Education Tax Credit (CETC) introduced in the 1996 Budget.

The current definition of a qualifying co-operative education program under the CETC is based on the Canadian Association for Co-operative Education’s definition of a co-operative education program. While there are many leading-edge technology programs which currently meet this definition, there are various programs with alternative study and work experience arrangements that do not. A new component will be added to the definition of co-operative education program to target leading-edge technology programs that do not currently qualify for the CETC.

New Qualifying Work Placements

- New qualifying work placements for a leading-edge technology program will be placements that are recognized by an eligible educational institution as part of a qualifying leading-edge technology program.
- The eligible educational institution will certify that the education program meets the definition of a qualifying program in leading-edge technology and that the work performed by the student during the work placement is in a related field.
- The eligible educational institution will issue a voucher to a student enrolled in a leading-edge technology program. The business will use this voucher to support their CETC claims for these placements.

Eligible Educational Institutions

- An eligible educational institution will be a provincially (Ontario) assisted university, a college of applied arts and technology, the Ontario College of Art and Design, the Michener Institute for Applied Health Sciences and other post-secondary institutions prescribed by the Minister.

Tax Credit

- The credit will continue to be refundable and equal to 10 per cent of the salaries, wages and benefits paid to the student during the work placement, with a maximum credit of $1,000 per placement.
- The CETC in respect of new qualifying work placements will be available to incorporated and unincorporated businesses.

Qualifying Leading-Edge Technology Programs

- Qualifying leading-edge technology programs could include approved programs of study in fields such as the following:
  - Computer science, e.g., information systems, software engineering and digital animation;
  - Information and telecommunications technology;
  - Natural and medical sciences, e.g., biochemistry, microbiology, metallurgy and material science;
  - Engineering, e.g., environmental, chemical and aerospace.
- To target the CETC to leading-edge technology programs, Ontario will consult with stakeholders in industry and post-secondary educational institutions prior to finalizing the details of the enhancement.

Effective Date

- The enhanced credit for leading-edge technology programs will be available for qualifying work placements which commence after December 31, 1997.

Ontario Graduate Transitions Tax Credit

To encourage business to provide work opportunities to unemployed graduates, Ontario will provide a 10 per cent refundable tax credit to Ontario businesses for qualifying expenditures incurred in hiring Ontario unemployed post-secondary graduates.

Qualifying Expenditures

- Qualifying expenditures will be salaries, wages and benefits paid by the employer to the post-secondary graduate in respect of qualifying employment, as reported on the employee's T-4 slip.

Qualifying Employers

- Qualifying employers will be Ontario corporations and unincorporated businesses.
- An Ontario corporation is a corporation that has a permanent establishment in Ontario, other than a corporation exempt from tax under the Corporations Tax Act. Ontario unincorporated businesses are businesses with permanent establishments in Ontario, other than unincorporated businesses carried on by individuals exempt from tax under the Income Tax Act (Ontario).
- For partnerships, the Ontario Graduate Transitions Tax Credit will be shared by partners in a manner similar to the Ontario Co-operative Education Tax Credit.

Qualifying Employment

- Qualifying employment will be the hiring of a qualifying Ontario post-secondary graduate to work at a permanent establishment in Ontario for a period of at least six months.

Qualifying Post-Secondary Graduates

- A qualifying post-secondary graduate will be an individual unrelated to the qualifying employer who, within the past three years:
  - has graduated from a recognized program of study; and
  - has been unemployed for at least 16 weeks of the last 32 weeks immediately preceding the first day of qualifying employment.
- A recognized program of study includes a program in a post-secondary institution that is funded by the Ontario Government or in a private vocational school as prescribed in the Private Vocational Schools Act (Ontario), that results in one of the following post-secondary credentials:
  - a trades certificate or diploma from a vocational school or apprenticeship training;
  - a non-university certificate or diploma from a community college or school of nursing;
  - a university certificate below a bachelor degree;

- a bachelor degree; or
- a university certificate or degree above a bachelor degree.

◆ A certificate includes a certificate for a recognized program of academic study or trades training, and for a professional or vocational program. It does not include certificates of completion issued for individual courses or for studies in continuing education or in areas related to personal interest or leisure activities.

Tax Credit

◆ Qualifying employers will receive a refundable tax credit equal to 10 per cent of qualifying expenditures paid to qualifying post-secondary graduates in their first 12-month period of employment.

◆ The maximum credit for each new hire cannot exceed $4,000.

◆ The credit cannot be claimed until the employee has worked for the minimum six-month period.

◆ The credit will be applied against outstanding Ontario tax liabilities and any excess will be refundable.

Effective Date

◆ The credit will apply to new hires commencing after May 6, 1997.

Capital Tax Harmonization for Financial Institutions

In order to simplify and modernize Ontario's capital tax system, the Corporations Tax Act will be amended to follow more closely the federal large corporations tax as it applies to financial institutions.

Definition of a Financial Institution

◆ A financial institution for purposes of the Ontario capital tax will be a corporation that at any time in the year is:

- a bank or credit union (excluding prescribed central credit unions and leagues);
- authorized under the laws of Canada or a province to carry on the business of offering its services as a trustee to the public;
- authorized under the laws of Canada or a province to accept deposits from the public and carries on the business of lending money on the security of real estate or investing in mortgages on real estate;

- registered or licensed under the laws of a province to trade in securities, in the capacity of agent or principal, without any restriction as to the types or kinds of securities in which it may trade;
- a mortgage investment corporation, as defined in the Income Tax Act (Canada); or
- a prescribed corporation.

Calculation of Paid-up Capital

- ◆ The taxable paid-up capital of a financial institution will be:
  - its long-term subordinated debt;
  - its capital stock (or members' contributions if it is a corporation without share capital);
  - its retained earnings;
  - its contributed and other surplus;
  - its reserves to the extent that they are not deducted for income tax purposes, but excluding depreciation or depletion reserves; and
  - one-third of the total of all amounts, each of which is the carrying value at the end of the year of an asset of the financial institution that is tangible property used in Ontario.

  Less:

  - $2 million, prorated among related financial institutions with permanent establishments in Ontario.

Investment Allowance

- ◆ A financial institution will be entitled to an allowance to reduce its capital tax payable in a taxation year where it has made an investment in shares or long-term subordinated debt of a related financial institution which is also taxable in Ontario.
  - The amount of the allowance claimed by the investor will recognize the proportion of business done in Ontario by the related financial institution.

Tax Rate

- ◆ The rate of tax payable by a financial institution other than a credit union on taxable paid-up capital allocated to Ontario will be:

- – 0.6 per cent on the first $200 million; and
- – 0.9 per cent on any amount in excess of $200 million.

- ◆ The threshold amount of $200 million of taxable paid-up capital which is subject to the lower rate of capital tax will be prorated among related financial institutions with permanent establishments in Ontario.

Effective Date

- ◆ Credit unions will be subject to these changes after December 31, 1997.
- ◆ For other financial institutions that are members of a related group of financial institutions with aggregate taxable paid-up capital in excess of $10 million, these changes will be effective after May 6, 1997, prorated for taxation years straddling May 6, 1997.
- ◆ For the remaining financial institutions, these changes will apply to taxation years beginning after May 6, 1997.

Credit Unions

- ◆ To provide transitional relief, the capital tax on credit unions will be capped at 0.6 per cent and will be phased-in at the following rates:
  - – 0.05 per cent on taxable paid-up capital allocated to Ontario, effective after December 31, 1997 and before January 1, 1999 (prorated for taxation years that include these dates);
  - – 0.1 per cent on taxable paid-up capital allocated to Ontario, effective after December 31, 1998 and before January 1, 2000 (prorated for taxation years that include these dates);
  - – 0.2 per cent on taxable paid-up capital allocated to Ontario, effective after December 31, 1999 and before January 1, 2001 (prorated for taxation years that include these dates);
  - – 0.4 per cent on taxable paid-up capital allocated to Ontario, effective after December 31, 2000 and before January 1, 2002 (prorated for taxation years that include these dates); and
  - – 0.6 per cent on taxable paid-up capital allocated to Ontario, effective after December 31, 2001 (prorated for taxation years that include this date).

Parallelling the Federal Temporary Capital Tax Surcharge on Large Deposit-Taking Financial Institutions

Ontario will harmonize with the federal measure to extend the temporary surcharge on the capital tax of large deposit-taking financial institutions from November 1, 1997 to October 31, 1998.

- The temporary surcharge will also be extended effective after May 6, 1997 to all large deposit-taking financial institutions.
  - For taxation years that straddle May 6, 1997, the temporary surcharge will be prorated based on the number of days in the taxation year after May 6, 1997.
- Effective after May 6, 1997, the definition of taxable paid-up capital for the purposes of the temporary surcharge will reflect the new tax base resulting from capital tax harmonization with the federal large corporations tax.
- The temporary surcharge is equal to 10 per cent of the capital tax levied on a large deposit-taking financial institution's taxable capital over $400 million.
  - The $400 million capital deduction will be prorated among related financial institutions with permanent establishments in Ontario.
- A large deposit-taking financial institution may reduce its liability for the temporary surcharge by the Small Business Investment Tax Credit.

Improving the Small Business Investment Tax Credit for Financial Institutions

Effective after May 6, 1997, the Small Business Investment Tax Credit, which was announced in the 1996 Budget, will be amended to help target the incentive to more small businesses, to expand eligible investments to include investments in Community Small Business Investment Funds and to extend the credit to all large deposit-taking financial institutions and to credit unions.

The Small Business Investment Tax Credit is earned by deposit-taking financial institutions for eligible investments made to qualifying small businesses. The tax credit reduces a financial institution's Ontario capital tax liability.

Extension of the Tax Credit to Qualifying Financial Institutions

- Effective after May 6, 1997, qualifying financial institutions will be able to reduce their capital tax liability by making investments that qualify for the Small Business Investment Tax Credit.
- A qualifying financial institution for the purposes of the tax credit will be:
  - a deposit-taking financial institution that is a member of a related group of financial institutions that has aggregate taxable paid-up capital in excess of $400 million; and
  - a credit union.

Enriched Credit for Small Patient Capital Investments

- To target the credit to smaller growing businesses, the tax credit will be enriched to 75 per cent for small patient capital investments not exceeding $50,000 in qualifying small businesses with no more than $500,000 in total assets and gross revenue (including assets and revenue of associated businesses).
- The enriched tax credit will be reduced from 75 per cent to 20 per cent where the amount of the investment is between $50,000 and $100,000 or where the total assets or gross revenue of the qualifying small business (and associated businesses) are between $500,000 and $750,000.
  - Where the amount of the investment is above $50,000 and the total assets or gross revenue of the qualifying small business are greater than $500,000, both reductions will apply.
- A small patient capital investment will be an investment made after May 6, 1997 in shares or long-term subordinated debt issued by a qualifying small business that qualifies as an eligible investment under the current tax credit rules.
- The enriched tax credit rate will only be available if the total of the qualifying financial institution’s eligible investments in the small business does not exceed $100,000.

New Credit for Small Loans Made at Interest Rates Below Bank Prime

- A tax credit of 4 per cent will also be available for small loans not exceeding $50,000 made to qualifying small businesses with no more than $500,000 in total assets and gross revenue (including assets and revenue of associated businesses), provided that the loan is made after May 6, 1997 at a rate of interest below bank prime.

- The tax credit will be equal to 4 per cent of the amount of qualifying loans made by a qualifying financial institution that are outstanding in the year, as adjusted to reflect the period during the year that the amount was outstanding.
- The maximum amount of tax credits that a qualifying financial institution may claim in a taxation year in respect of below-prime small loans will be 75 per cent of the qualifying financial institution's capital tax that is eligible to be earned back in respect of the taxation year.
- The tax credit for below-prime small loans will not be available for loans made to persons carrying on prescribed businesses, including professions such as law, dentistry, accounting and medicine.

New Credit for Investments in Community Small Business Investment Funds

- A qualifying financial institution will be able to claim a 20 per cent tax credit in respect of its investment in a Community Small Business Investment Fund.
  - The credit is to be claimed at the time and to the extent that the Community Small Business Investment Fund reinvests the qualifying financial institution's investment in small businesses.
- As a temporary incentive, investments made after May 6, 1997 and before January 1, 1999 in Community Small Business Investment Funds will qualify for an immediate 20 per cent tax credit.
- As a result, a qualifying financial institution may claim a total tax credit of 40 per cent in respect of an investment in a Community Small Business Investment Fund.
- Further details regarding Community Small Business Investment Funds are contained in Appendix C1.

Amount of Capital Tax Eligible to be Earned Back

- Effective May 6, 1997, the total capital tax that a qualifying financial institution other than a credit union may earn back in respect of a taxation year will be the total of:
  - its temporary capital tax surcharge in respect of that year; and
  - 20 per cent of its capital tax liability (excluding the temporary surcharge) on its taxable capital over $400 million in respect of that year.
    - The $400 million taxable capital threshold will be prorated among related financial institutions with permanent establishments in Ontario.

  - For the purposes of the earn back, a qualifying financial institution's capital tax liability for a taxation year that straddles May 6, 1997 will be prorated on the basis of the number of days in the year after May 6, 1997.

- For a credit union, the amount of capital tax eligible to be earned back in respect of a taxation year will be its total capital tax liability for that taxation year.

- The credit earned by a qualifying financial institution may be shared with a member of its related group of financial institutions.

Earn-Back Period

- To claim the tax credit after May 6, 1997 in respect its capital tax liability for a taxation year, a qualifying financial institution must make eligible investments before the end of the second calendar year following the calendar year in which the taxation year ends.

- Any liability for the temporary capital tax surcharge for a period before May 7, 1997 may be earned back under the new tax credit rules.

Consultations

- Ontario will consult with small business and financial institutions regarding the implementation of the Small Business Investment Tax Credit for Financial Institutions.

Amendments to the Investment Allowance

- The Corporations Tax Act will be amended to exclude from the investment allowance claimed by a corporation in computing capital tax any loans or advances to or bonds, debentures or other securities of a government, Crown corporation or municipal or school corporation. This corresponds to the treatment of these investments under the federal large corporations tax.

- This measure will be effective for taxation years ending after December 31, 1997.

Amendments Relating to Federal Measures

- Changes will be made to the Corporations Tax Act to harmonize with federal income tax changes and effective dates announced in the 1997 federal budget. These include:

  - extending the rules for mining reclamation trust funds to include similar trust funds established for waste disposal sites and quarries for the extraction of aggregates; and

  - broadening the investor base for renewable energy to include test wind turbines.

- The Corporations Tax Act will also be amended so that a corporation's losses for Ontario tax purposes will not be affected for corporations that elect to participate in the federal aviation fuel excise tax rebate contained in the 1997 federal budget.

- Ontario will continue to permit the 100 per cent net income limit to apply to gifts from Ontario corporations to the Crown in right of Ontario and Ontario Crown Agencies, including Crown foundations.

All enquiries regarding corporations tax changes should be directed to:

Corporations Tax Branch
Ministry of Finance
P.O. Box 622
33 King Street West
Oshawa, Ontario
L1H 8H7
English: 1-888-562-4769 or 1-888-JOB-GROW
French: 1-888-562-4769 or 1-888-JOB-GROW
Teletypewriter (TTY): 1-800-263-7776

Other Changes

Equalizing Passenger Vehicle Registration Fees

- Effective for registration renewals and new registrations on or after September 1, 1997, registration fees for passenger cars, commercial motor vehicles weighing 3,000 kilograms or less used for personal purposes, and motorized mobile homes will be equalized at $74 across Southern Ontario. Fees for northern Ontario will be set at $37.

  - Fees in the Greater Toronto Area will decrease from $90 to $74.

  - Fees in Southern Ontario will increase from $66 to $74.

  - Fees in northern Ontario will increase from $0 to $37.

- Registration fees for motorcycles will also be equalized across Southern Ontario at $42.
  - Fees in the Greater Toronto Area will decrease from $48 to $42.
  - Fees in Southern Ontario will increase from $36 to $42.
  - Fees in Northern Ontario will increase from $0 to $21.
- Registration fees for mopeds will decrease from $15 to $12.
- For those individuals who choose to renew for a two-year period, effective immediately and until September 1, 1997, vehicles being registered in Ontario will be renewed under the current fee structure for 12 months. Thereafter, renewals will be made according to the new rate structure.
- Registration fees for commercial motor vehicles weighing 3,000 kilograms or less used for commercial purposes and registered in the Greater Toronto Area will be reduced to $74 from $90. In the rest of Ontario these fees will be decreased from $81 to $74.
  - Registration fees for heavy commercial vehicles, heavy commercial farm trucks, and buses remain unchanged.

All enquiries regarding these changes should be directed to:

Licensing and Control Branch
Ministry of Transportation
Main Floor, East Building
2680 Keele Street
Downsview, Ontario
M3M 3E6
English: 1-416-235-2999
French: 1-416-235-2999
Teletypewriter (TTY): 1-800-263-7776

Making the Tax System Fairer

Defeating the Underground Economy

- Ontario will implement a number of initiatives targeted at the underground economy and tax evasion, including the following:
  - Negotiations are continuing with Revenue Canada to collect on the Province’s behalf the retail sales tax payable on taxable

items brought into the province by residents returning from outside Canada. In addition, discussions will begin with Revenue Canada to obtain information on commercial imports for retail sales tax purposes and with Canada Post to allow for the collection of retail sales tax on taxable items mailed to Ontario residents.

– Retailers convicted of offences under the Retail Sales Tax Act will have their on-line lottery ticket privileges temporarily suspended.

– Staff resources dedicated to the prosecution of strict liability offences under the Retail Sales Tax Act will be increased.

– Overall audit capacity, particularly for commodity taxes will be strengthened further. Electronic systems will be created and enhanced to:

  - allow for the more efficient use of collection, audit and investigative resources;
  - improve information exchange and matching capabilities between various federal, provincial and municipal data bases; and
  - allow for the electronic filing of returns.

– Ontario will participate in Joint Force Investigations with the RCMP, municipal police forces and Revenue Canada to investigate and prosecute tax evasion schemes involving alcohol and tobacco products.

– Ontario will initiate discussions with the other provinces administering their own retail sales taxes to determine methods of collecting retail sales tax on goods ordered in one jurisdiction and delivered to another.

– Ontario will consult with the propane industry on opportunities to streamline propane taxation.

Improving the Objections and Appeals Process

◆ The objections and appeals process will be improved. Changes to Ministry of Finance staffing allocation, procedures and legislation will be implemented to effect a more timely resolution of objections and appeals.

◆ Ministry of Finance staff and taxpayers will be encouraged to place more emphasis on the resolution of issues at the pre-objection stage.

- Taxpayers will be required to:
  - disclose in their notices of objection all issues in dispute;
  - provide the facts and reasons being relied upon in respect of each issue; and
  - respond to requests for facts and reasons relating to the initial notice of objection within 60 days.
- Taxpayers will not be able to add new issues to the objection, although they will be able to file another objection to a subsequent reassessment for the taxation year. Similarly, appeals may be filed only in respect of issues specified in the original Notice of Objection.
- The process will also be simplified by no longer requiring objections to be filed in duplicate and by registered mail.
- Other changes to improve administration and fairness and to standardize procedures across statutes will be implemented where appropriate.
- Ontario will review the new federal Appeals Renewal Initiative to determine which changes should be adopted.

Inter-Provincial Asset Transfers: Preventing Abuse

- Ontario will enact technical changes which will adopt the elective income tax rollover provisions of the Income Tax Act (Canada) more closely.
  - Where a corporation transfers an asset and makes an election under the rollover provisions for federal purposes, Ontario will deem the election to have been made for Ontario purposes, and when a corporation transfers assets but does not make an election for federal purposes, it will not be allowed to make an Ontario election. In addition, Ontario will require that the elected amount for Ontario purposes be the same as the federal elected amount.
  - These restrictions will also apply to other elective situations such as a change of control where corporations are deemed to dispose of property at proceeds of disposition which they can designate.
  - These changes will be effective for rollovers occurring on or after May 6, 1997 and for designations or elections on deemed dispositions occurring in taxation years ending on or after May 6, 1997. However, to avoid disrupting taxpayers who conduct

virtually all of their business in Ontario, the above restrictions will not apply where each party participating in the rollover (or designating or electing proceeds on deemed dispositions) has over 90 per cent of its income allocated to Ontario.

- In addition, legislative changes will be made to the Corporations Tax Act and the Income Tax Act (Ontario) to adopt the measures to reduce tax avoidance relating to inter-provincial asset transfers which were announced on December 19, 1996. These measures prevent taxpayers from avoiding provincial tax on inter-provincial asset transfers. The rules apply to all dispositions of assets to non-arm's length parties utilizing the federal rollover provisions where the disposition results in either:
  - an undue increase in the tax cost base of the asset transferred; or
  - an undue reduction of the taxpayer's income.
- These measures to reduce tax avoidance apply to transactions or series of transactions commencing on or after December 19, 1996, and to transactions or series of transactions commencing prior to December 19, 1996 and completed after this date.

Facilitating Hospital Mergers

- Relief will be provided to facilitate the restructuring of publicly-funded hospitals for tax liabilities under the Retail Sales Tax Act and the Land Transfer Tax Act.

Fair Tax Treatment for Small Estate Wineries

- For the 1998 and subsequent taxation years, buildings located on farms, such as wineries, that are used to process or sell the produce from the farm, will be treated for property assessment purposes in a manner similar to farm residences, i.e., the land under the buildings will be valued as farm land. This will ensure fair and equitable property tax treatment of small estate wineries.

Registered Insurance Brokers

- Brokers who place insurance with unlicensed insurers are required under the Registered Insurance Brokers Act to collect and remit the equivalent to the premium tax to the Ontario Insurance Commission.

- Also, reciprocal or inter-insurance exchanges licensed under the Insurance Act presently remit their premium tax through their attorneys to the Ontario Insurance Commission.

- The collection of these taxes is being transferred from the Ontario Insurance Commission to the Corporations Tax Branch, which presently collects premium taxes from other insurers. Necessary amendments will be made to the Registered Insurance Brokers Act, the Insurance Act and the Corporations Tax Act effective for taxation years commencing after December 31, 1997.

Other Capital Tax Changes

Investment Allowance Year-End Transactions

Corporations may artificially increase their investment allowance claim by advancing funds to related corporations having a different taxation year end. The recipient corporation excludes such advances from paid-up capital by repaying them before their year-end.

- Effective for taxation years ending on or after October 31, 1997, the Corporations Tax Act will be amended to deny the reduction of paid-up capital in respect of a loan or an advance if it is established that the loan or advance:

  – was made to a related corporation that has a later year-end;

  – was not outstanding 120 days before the year-end of the corporation making the advance; and

  – was made or issued as part of a series of loans or advances and repayments.

- A loan or advance will generally be considered to be part of a series of loans or advances and repayments where the amount is repaid by the related corporation prior to its year-end and therefore not subject to capital tax.

Investment Allowance Subsidiaries of Financial Institutions

Corporations may artificially increase their investment allowance claim by advancing funds to a subsidiary of a financial institution on a short-term basis instead of directly to the financial institution.

- Effective for taxation years ending on or after October 31, 1997, the Corporations Tax Act will be amended to extend the 120-day holding restriction to any arrangement entered into with a corporation related to a financial institution listed in subclause 62(1)(c)(iv) of the Act where the loan or advance is guaranteed or otherwise secured by the financial institution.

Other Amendments

To improve the administrative effectiveness and efficiency and maintain the technical integrity of the tax system, various changes will be made to the following Ontario tax statutes:

- Income Tax Act
- Labour Sponsored Venture Capital Corporations Act
- Corporations Tax Act
- Land Transfer Tax Act
- Retail Sales Tax Act
- Fuel Tax Act
- Gasoline Tax Act
- Mining Tax Act
- Race Tracks Tax Act
- Tobacco Tax Act

These amendments include:

- enacting legislation similar to the federal government's enhanced garnishment or "super priority" provisions to give Ontario priority over secured creditors for funds held in trust when a garnishment is issued;
- enacting legislation to clarify that, where a taxable product is sold at a temperature-adjusted volume, the motive fuel tax collected and remitted is based on the temperature-adjusted volume, and where taxable product is sold at the ambient temperature, the motive fuel tax collected and remitted is based on the ambient temperature volume;
- enacting legislation to extend the reassessment and refund periods to a maximum of four years in tax statutes where this is not currently the case;
- amending the definition of "sale" in the Retail Sales Tax Act to provide authority for the Minister to prescribe what constitutes a "sale" of telecommunications services in order to eliminate the possibility of double taxation or avoidance of tax;

- amending the corporate minimum tax provisions in the Corporations Tax Act effective May 6, 1997:
  - to provide a deduction for dividends subject to tax under Part VI.1 of the Income Tax Act (Canada),
  - to exempt dividends of central credit unions that are deductible for income tax purpose, and
  - to ensure that there is no deduction for dividends reclassified for accounting purposes as interest expense; and
- enacting legislation to make other technical and housekeeping amendments.

All enquiries regarding tax changes to make the tax system fairer should be directed to:
Tax Design and Legislation Branch
Ministry of Finance
2nd floor, Frost Building North
95 Grosvenor St.
Toronto, Ont.
M7A 1Y7

English: 1-888-562-4769 or 1-888-JOB-GROW
French: 1-888-562-4769 or 1-888-JOB-GROW
Teletypewriter (TTY): 1-800-263-7776

Appendix C1

Framework for Community Small Business Investment Funds

As noted by the Committee on Small Business Access to Capital, small businesses with $1 million or less in assets and revenue have difficulty accessing venture capital. These businesses are typically at the seed or start-up phase of development.

Venture capital financing occurs along the continuum of a company's development. Within the venture capital spectrum, seed or early-stage financing would normally be supplied by family members and by the informal venture capital market (commonly referred to as "angels"). Formal venture capitalists provide some capital at the seed stage, but focus predominantly on the middle and later stages of a company's development. Banks and pension funds tend to invest in larger amounts at the later stages of a company's development.

The supply of formal venture capital has grown rapidly in Ontario, primarily as a result of federal and provincial personal income tax incentives to average individuals purchasing shares in labour sponsored investment funds (LSIFs). LSIFs have filled the gap created by the exit of traditional institutional and corporate investors in the late 1980s and early 1990s. The exit of these institutions caused a decline in Ontario's capital under management from $1.7 billion in 1989 to $1.2 billion in 1992. LSIF's share of capital under management rose from 11 per cent in 1992, to 30 per cent in 1994. In 1996, Ontario's venture capital market had $2.8 billion of capital under management, of which LSIFs accounted for one-half.

While the overall supply of venture capital has increased significantly as a result of the LSIF program, there has not been a corresponding increase in the supply for smaller businesses (e.g., under $1 million in assets) requiring smaller amounts of capital. The imperative is to direct more of the capital raised through tax assistance to the seed or early-stage segment of the market.

To provide small, local growth-businesses with greater access to capital and to complement the LSIF program and the small business investment tax credit for financial institutions, Ontario will introduce the Community Small Business Investment Funds (CSBIF) program. A formal fund approach will encourage capital to be dispersed among many communities, ensure that capital is committed, provide a local, alternative source of patient capital for small businesses in the community and provide a real focus for investment partnerships with the community.

The impetus for the creation of a fund in a particular area or community can emanate from any number of sources, such as the community itself, local angels, a local financial institution or an LSIF. Synergies can result through this arrangement, regardless of who initiates the fund.

The Government believes that promising investment opportunities in early-stage, growing small businesses are available and should be facilitated. The greatest potential for success lies in coordinated action among key players: LSIFs, financial institutions, angels, the Government of Ontario and the federal government. The Government proposes the following framework for CSBIFs.

Sponsors

- A Community Small Business Investment Fund must be sponsored by: one or more lower-tier or local municipalities within a region, county or district; an upper-tier municipality; or a single-tier municipality. Alternatively, a Community Small Business Investment Fund must be sponsored by one or more universities.

- Active community participation will be required on an ongoing basis, through community involvement on the Board of the CSBIF by the sponsor or by other persons from the community acceptable to the sponsor.

Fund Size/Structure

- Minimum fund size of $5 million and maximum fund size of $10 million apply. A single investor will be limited to an investment of $5 million.
- Closed-end fund with a maximum life of ten years, subject to investors' right of extension.
- Up to 10 per cent of the fund's capitalization can be used to finance operating expenses over the life of the fund.
- It is expected that there will be no disbursements to investors from the CSBIF before 90 per cent of the shareholder equity of the CSBIF is invested and until at least the end of the sixth year.
- Financial institutions and LSIFs are prohibited from recovering any charges or fees from the CSBIF.

Governance

- Sponsoring entity will have minority representation on the board.
- Investors will have majority representation on the board.

Investment Parameters

- Ninety per cent of shareholder equity must be invested; at least 50 per cent must be invested within two and one-half years of capitalization of the CSBIF.
- Investments will be in qualifying small businesses (deal sizes of under $250,000).
- Initial investments in companies with $1 million or less in assets and revenues.
- Follow-on financing will be allowed, but no more than one-fifth of the fund's shareholder equity can be invested in any one company.
- Eligible investments will be restricted to the sponsor's "community."
- Certain businesses will not qualify for investment (e.g., real estate, personal services corporations and specified investment businesses).

Financial Penalties

- Financial penalties will apply if the investment requirements are not fulfilled.

Sources of Capital

The Government will encourage this new community venture capital focus by re-directing existing tax-assisted pools of capital. An enriched financial institutions' tax credit and investment pacing incentives for LSIFs will encourage the capitalization of CSBIFs.

CSBIFs may also receive capital from local private investors (i.e., angels), local corporations, community organizations and pension funds. Local private investors could also co-invest along side the CSBIF in addition to, or instead of, investing directly in the CSBIF. No incentives are planned to encourage direct investment in CSBIFs by the general public.

Next Steps

The Government will introduce legislation to create Community Small Business Investment Funds following consultations with communities, LSIFs, local corporations, angels, financial institutions, the federal and municipal governments and other interested parties.

Labour Sponsored Venture Capital Corporations Act

The Labour Sponsored Venture Capital Corporations Act provisions will be contained in the new Community Small Business Investment Funds Act.

Tax Incentives for Investments in CSBIFs

- To maximize investments in small and medium-sized businesses and to assist in the capitalization of CSBIFs, LSIFs will be permitted to invest in small businesses through CSBIFs:
  - Effective July 1, 1997, LSIFs will be able to set aside capital in a segregated account for CSBIFs. Each dollar set aside in an account will count as two dollars towards either an LSIF's small business investment requirement or against penalty taxes owing.
  - LSIFs will be allowed to carry forward any unused credit.
  - The incentive will be in effect until December 31, 1998.
  - The capital, including interest, set aside in 1997 must be transferred to a CSBIF within six months after the legislation to establish CSBIFs receives royal assent. The capital, including interest, set aside in 1998 must be transferred to a CSBIF on or before December 31, 1998.

- In addition, qualifying investments made by an LSIF in a CSBIF will count dollar-for-dollar against the LSIF’s small business investment requirement when the CSBIF reinvests the amount of the LSIF’s investment in small businesses.
- If the capital, including interest, is not transferred to a CSBIF, the LSIF will be required to invest the capital and any interest according to the small business investment requirement within the remaining time of the investment period.

Small Business Investment by Labour Sponsored Investment Funds

- ◆ To encourage investment in small business, the small business investment requirement will be increased to 15 per cent for 1997 and 1998 and to 20 per cent for 1999 and subsequent years:
  - For capital raised after May 6, 1997 and before March 2, 1999, the small business investment requirement will be increased to 15 per cent of the capital required to be invested.
  - For subsequent investment periods, which commence on the 61st day of a year and end on the 60th day of the following year, the small business investment requirement will be 20 per cent of the capital required to be invested.

Concordance with the Income Tax Act (Canada)

- ♦ Certain provisions relating to LSIFs will be amended to harmonize with proposed 1997 federal budget changes for labour sponsored venture capital corporations:
  - The maximum total investment in an eligible business is increased from the current $10 million limit to $15 million.
  - For the purposes of the 500-employee limit, part-time employees will count as one-half an employee.

All enquiries regarding Community Small Business Investment Funds and Labour Sponsored Investment Funds should be directed to:

Taxation Policy Branch
Ministry of Finance
5th Floor, Frost Building South
7 Queen’s Park Crescent East
Toronto, Ontario
M7A 1Y7
English: 1-888-562-4769 or 1-888-JOB-GROW
French: 1-888-562-4769 or 1-888-JOB-GROW
Teletypewriter (TTY): 1-800-263-7776

**Revenue Changes:
1997 Budget Impact Summary
($ million)** **Table C1**

	1997-98	Full Year
Income Tax Act		
PIT Cut	(625)	(4,815)*
Fair Share Health Care Levy	35	260*
Subtotal	**(590)**	**(4,555)***
Enriched Ontario Tax Reduction for Families	(15)	(25)*
Child Care Tax Credit	(40)	(40)
Small Business Development Corporations Act		
Wind-up of Program	(5)	(10)
Retail Sales Tax Act		
Extended Rebate for Farmers	(10)	(14)
Computer Programs	50	55
Exemption for R&D Equipment for Manufacturers	(4)	(5)
Exemption for Non-Profit Medical R&D Equipment	(4)	(5)
Land Transfer Tax Act		
First-Time New Home Buyers Refund	(16)	(20)
Higher Non-Resident Rate Eliminated	(3)	(3)
Corporations Tax Act		
Ontario Business-Research Institute Tax Credit	(25)	(30)
Eliminating 5% Tax on Technology Transfers	(5)	(30)
Ontario New Technology Tax Incentive	(5)	(10)

* Reflects full implementation.

Note: 1997 Budget continues phase-in of Employer Health Tax exemption and elimination of self-employed health tax announced in the 1996 Budget

	1997-98	Full Year
Ontario Computer Animation and Special Effects Tax Credit	(7)	(10)
Enrichment to Film and Television Tax Credit	(5)	(7)
Improvements to Co-operative Education Tax Credit *	(2)	(10)
Ontario Graduate Transitions Tax Credit *	(35)	(40)
Ontario Book Publishing Tax Credit	(2)	(3)
Capital Tax Deduction for R&D Expenditures	(1)	(1)
Capital Tax Harmonization for Financial Institutions	40	40
Temporary Capital Tax Surcharge on Large Financial Institutions	10	20
Improvements to Small Business Investment Tax Credit	(40)	(60)
Amendments to the Investment Allowance	0	1
Concordance with the Income Tax Act (Canada)	0	(1)
Making the Tax System Fairer	58	151
Other Changes		
Vehicle Registration Fees	0	0
Total Revenue Changes	(656)	(4,612)

* Includes credits claimed by unincorporated businesses.

Paper D

Ontario Financing Operations

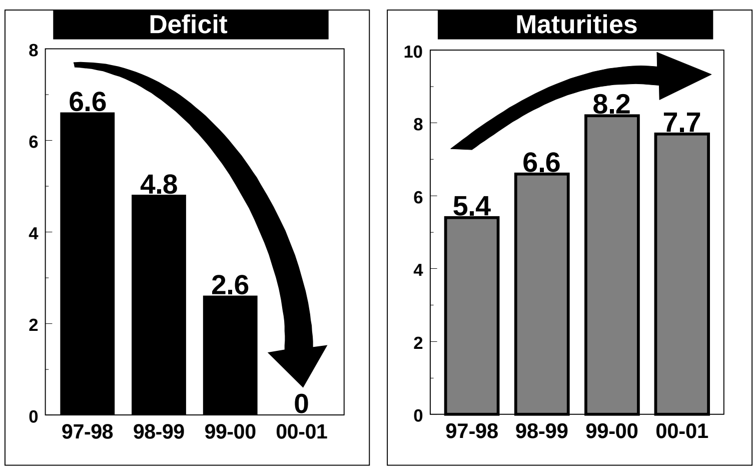
Introduction

For the second year in a row, the Province has exceeded the deficit targets outlined in the Balanced Budget Plan. In the 1997-98 fiscal year, the provincial deficit will be reduced to $6.6 billion, a decrease of over 40 per cent from the $11.3 billion potential deficit outlook facing Ontarians in June 1995.

The Province's financing operations continue to benefit from the Government's Balanced Budget Plan. Declining deficits and lower market rates overall, coupled with narrower interest rate premiums on Ontario bonds and efficient financing operations, have resulted in lower-than-anticipated debt costs. Together, these factors contributed to savings of $286 million in Public Debt Interest (PDI) charges from estimates forecast in the 1996 Ontario Budget.

Borrowing Shifting to Refinancing

Deficit and Maturities (1997-98 to 2000-01)



By 1998-99, borrowing to refinance maturing debt ($6.6 billion) will be higher than borrowing to finance the deficit ($4.8 billion). As annual deficits fall to zero, the focus of the Province's financing operations will shift toward refinancing existing debt which is maturing. By 2000-01, the Province will be in a position to begin paying down its accumulated debt.

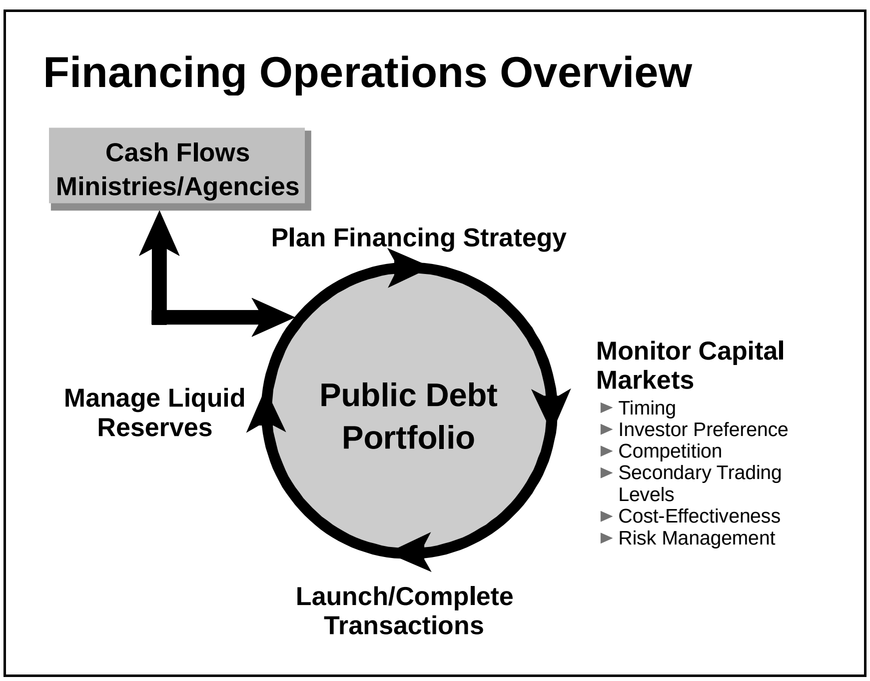
Financing Operations Overview

Financing operations encompass the following activities.

- *Borrowing and Corporate Finance*
  Funds are borrowed by issuing fixed income securities in the public capital markets domestically and internationally. The primary goal of this activity is to meet the Province's financial requirements cost-effectively. Pooled funding or alternative financing arrangements reduce financing requirements and/or costs.

- *Public Debt Management*
  Public debt is actively managed within a framework of strict risk management policies. Goals are to secure cost-effective and stable funding while maintaining a prudent debt profile. Another important aspect of this activity is developing a reliable annual PDI forecast.

- *Cash Management*
  Cash management includes control of cash flows and banking relationships.



The Ontario Financing Authority carries out these activities for the Province and its various Crown corporations and agencies. In addition, it coordinates borrowing strategy with Ontario Hydro to ensure orderly access to domestic and international capital markets.

In performing these activities, the Ontario Financing Authority:

- develops markets for Ontario debt at home and internationally;
- actively manages capital market risks;
- optimizes the use of the Provincial guarantee; and
- sets the framework for cash management practices.

Financing Operations Benefit from Strong Fundamentals

Ontario's Financing 1996-97 ($ Billions)	**Actual 1995-96**	**Budget 1996-97**	**Interim 1996-97**
Deficit	8.8	8.2	7.5
Cash Timing Adjustments	(2.0)	0.1	(1.9)
Net Cash Requirements	6.8	8.3	5.6
Maturities	2.1	6.1	6.4
Borrowing on Behalf of Agencies	(0.1)	0.5	0.3
Total Financing Requirements	**8.8**	**14.9**	**12.3**
Financed by			
Decrease/(Increase) in Liquid Reserves	(3.3)	4.7	5.6
Other Sources	0.1	0.2	0.2
Public Borrowing	12.0	10.0	6.5
Total	**8.8**	**14.9**	**12.3**

Net cash requirements and maturities are the key determinants of borrowing requirements. The net cash requirements are the difference between revenues recognized when cash is received and expenses recognized when cash is disbursed. The deficit is determined on an accrual basis and reports the gap between revenues and expenses attributed to the reporting period.

At the beginning of 1996-97, the Province's public borrowing requirements were estimated at $10 billion. By year-end, however, public borrowing requirements had fallen to $6.5 billion, primarily as a result of:

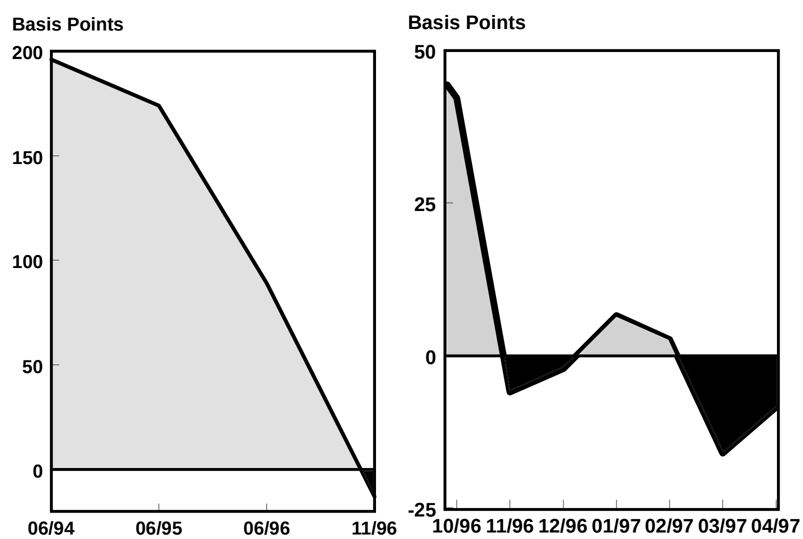
- increased revenues;
- an additional reduction in liquid reserves;
- lower expenditures, including interest charges on public debt; and
- effective debt management activities.

Canada-U.S. Spreads Lowest in Four Decades

The improvement in Ontario's and Canada's fiscal situation has increased investors' receptiveness to Ontario's debt issues. This, coupled with overall favourable market conditions, has allowed the Province to borrow at the lowest rates since its re-entry into the public capital markets in 1991.

- Unparalleled in recent history, Canadian 10-year bond rates have edged below the comparable U.S. Treasury benchmark and have held this ground (on a generally sustained basis) since February 1997.

Canadian 10-Yr Bond Rates Lower than U.S.



- In relation to its Government of Canada benchmark, Ontario 10-year bond rates were lower throughout 1996-97 than in 1990-91, when Ontario held a AAA credit rating. On average, Ontario's spreads were 22.5 basis points above Canada's in 1996-97 versus a 57 basis points differential in 1990-91.

Financing Activities

In 1996-97, the Ontario Financing Authority borrowed $7.2 billion in domestic and foreign capital markets. $6.5 billion of this amount settled in 1996-97 and is reported in the Appendix to this paper. The remaining $0.7 billion ($0.6 billion of which was in the Canadian dollar market) settled in early 1997-98.

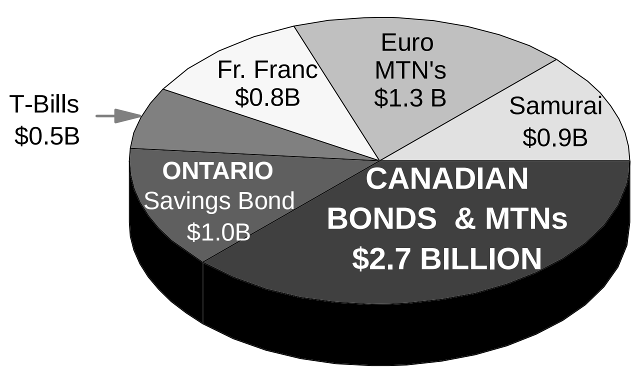
Domestic Financing Activities

The Canadian dollar market remained Ontario's primary source of funds, accounting for more than half of total borrowing transacted during the year ($4.2 billion of $7.2 billion). The following were the key features of the 1996-97 borrowing program:

- The second Ontario Savings Bond campaign was very successful, raising over $1 billion.
- A key feature of the Province's domestic market activity was the use of Canadian Medium Term Notes (CMTNs) targeted to specific retail and institutional investors.
- Some maturing debt had interest rates as high as 16.9%. This debt was refinanced with long-term Canadian rates as low as 7.5%.

Source of Ontario's Borrowing

Total Public Borrowing of $7.2 Billion in Fiscal 1996-97[1]



[1] Includes $0.7 billion transacted in 1996-97 and settled in 1997-98

As at March 31, 1997

Foreign Financing Activities

Internationally, Ontario borrowed in the following currency markets: US$, Australian$, New Zealand$, French Franc, Norwegian Kroner, Japanese yen.

To broaden Ontario's investor base, the Ontario Financing Authority diversified its use of financing instruments.

- The Province issued its first *samurai* bonds[1]. The three samurai issues launched during the fiscal year comprised almost $0.9 billion of the over $2 billion raised from Japanese investors in 1996-97.
- Ontario's first offer of a FF3 billion ($0.8 billion) issue was well received in the Euro-French Franc bond market.

Responding to investor demand, the Province doubled the authorized size of the European Medium Term Note (EMTN) program from $3 billion to $6 billion. Currently, Ontario has $3.4 billion outstanding under this program.

[1] "Samurais" are bonds issued into the Japanese domestic market by non-Japanese entities.

1997-98 Borrowing Requirements

For 1997-98, the Province's total financing requirements stand at $15.2 billion, of which planned long-term borrowing is $9.9 billion. The balance will be made up from a decrease in liquid reserves, short-term borrowing, and $0.7 billion in borrowing transacted in 1996-97.

Ontario's Financing ($ Billions)	**1997-98 Budget**
Deficit	6.6
Cash Timing Adjustments	2.6
Net Cash Requirements	9.2
Maturities	5.4
Borrowing on Behalf of Agencies	0.6
Total Financing Requirements	**15.2**
Financed by	
Decrease in Liquid Reserves	3.0
Other Sources	0.1
Financing Already Completed in 1997-98	0.7
Increase in Short-Term Borrowing	1.5
Planned Long-Term Borrowing	9.9
Total	**15.2**

Net cash requirements and maturities are the key determinants of borrowing requirements. The net cash requirements are the difference between revenues recognized when cash is received and expenses recognized when cash is disbursed. The deficit is determined on an accrual basis and reports the gap between revenues and expenses attributed to the reporting period.

Capital Markets Outlook

U.S. short-term interest rates are projected to increase, in comparison to 1996-97, as the U.S. Federal Reserve Bank attempts to slow the American economy. This would place upward pressure on Canadian interest rates[2]. As a result, interest charges on planned short- and long-term borrowing may increase this year despite continued positive fiscal fundamentals.

[2] Interest rate assumptions are set out in Budget Paper A.

Capital Markets Strategy

As opportunities arise, Ontario will issue bonds and Canadian Medium Term Notes in the domestic market, which continues to represent the Province's most important source of funds.

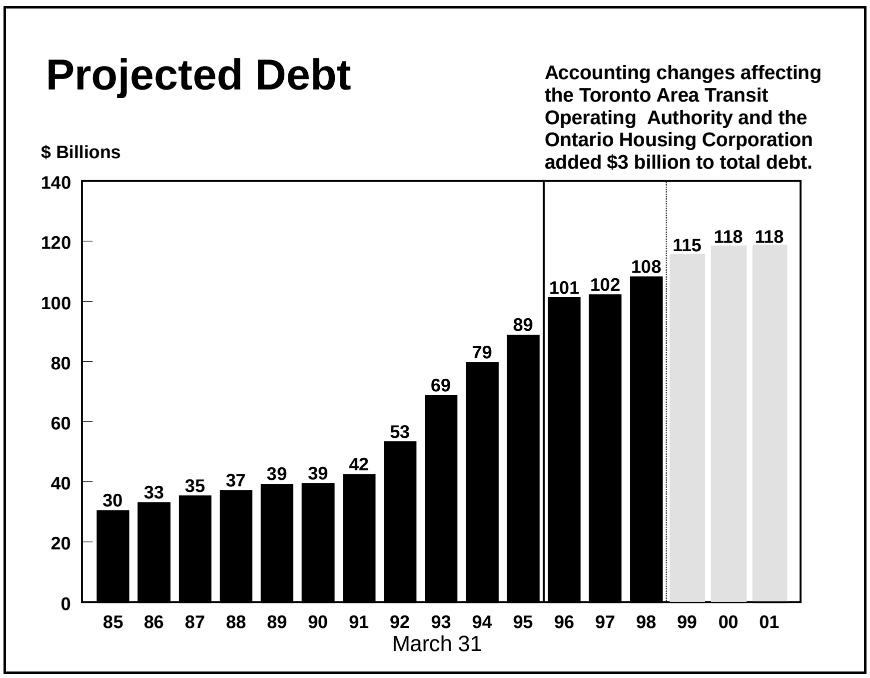
- A third offering of Ontario Savings Bonds is planned for May and June.

The Ontario Financing Authority will continue to monitor international markets for cost-effective borrowing opportunities.

- The Province expects to return to the global C$ and US$ markets in the coming year. Denominated in a selected currency, a global bond is a debt offering simultaneously issued in multiple international financial markets.
- The Japanese market remains an important source of cost-effective borrowing.

Provincial Purpose Debt Stock – Growth in Debt Slows

Total provincial purpose debt, including accounting changes affecting the Toronto Area Transit Operating Authority and the Ontario Housing Corporation, stood at $102 billion on March 31, 1997, or about a billion dollars lower than forecast in the 1996 Ontario Budget. Without these accounting changes, total debt would have stood at $99 billion, or almost $4 billion less than originally forecast. This reflects lower 1996-97 borrowing requirements.



Prudent Debt Management

Prudent debt management is vital to the Government's overall debt reduction efforts. Several key principles guide this activity. These include: managing debt with a view toward ensuring cost effectiveness and stability; maintaining a smooth debt profile (primarily denominated in Canadian dollars) through term selection and other means; and safeguarding Ontario's credit rating.

Prudent Management of the Public Debt Interest (PDI) Forecast

If PDI is not forecast accurately, other Government programs may be put at risk during the year. Consequently, PDI budgets are prepared to minimize this possibility by:

- using prudent forecasts of interest rates which should prevent an over-budget expenditure even if rates rise moderately; and
- taking careful account of all forecast cash needs of the Province beyond that of the deficit.

Cost-Effective and Sound Financing

PDI savings are achieved through the following successful actions in Ontario's borrowing program:

- timing issues to take advantage of lower interest rates;
- realizing savings from increasing financing at short-term rates;
- capturing savings from foreign exchange differentials;
- strategic use of international markets when savings opportunities presented.

Risk Management Framework

There are several risks inherent to any financing transaction. The major ones are foreign exchange and interest rate risk. Consequently, in all of its activities, the Ontario Financing Authority is bound by policies which impose strict limits on the type and amount of risk exposure it may assume. The purpose of these policies is to mitigate potential negative impacts associated with interest rate or foreign currency fluctuations and credit losses.

The key elements of Ontario's risk management policy framework are shown below:

Policy Framework	**Status on March 31, 1997**
Interest Rate Exposure The maximum limit on floating rate debt (net of liquid reserves) is 20% of total debt outstanding.	Less than 5%.
Foreign Currency Exposure Unhedged debt in foreign currencies is not to exceed 5% of total debt outstanding.	Less than 1%.
Counterparty Risk To mitigate interest rate and foreign currency exposure, the Province enters into legal contracts with counterparties. Ontario only enters into arrangements with counterparties rated double "A" or higher.	Hedge[3] portfolio, notional value, $90.2 billion.

Debt Profile

While the majority of the Province's debt ($66.3 billion) is denominated in C$, the Province has issued debt in 10 other currencies. At March 31, 1997, all but $0.8 billion of debt issued by the Province in other currencies had been effectively converted to Canadian dollar debt through prudent financial contract arrangements with counterparties[4].

Another way in which we manage the debt portfolio prudently is through term selection. The duration of new issues is selected to smooth future borrowing requirements.

Safeguarding Ontario's Credit Rating

[3] A hedge is a financial instrument or contract used to offset risks. For example, where the Province had issued a US$ global bond, financial contracts would be used to convert foreign currency cash flows into C$ denominated cash flows.

[4] Under this arrangement, known as a "swap agreement," the parties agree to take responsibility for a financial obligation incurred by the other. Status of exposure to and credit rating of counterparties is monitored daily.

Prudent debt management contributes fundamentally to the strength of Ontario’s credit. Equally important is the ongoing coordination between the Ontario Financing Authority and Ontario Hydro. By coordinating borrowing strategy, orderly access to capital markets is maintained among issuers relying on the province’s credit strength.

Move to Centralize Financial Activities Pays Dividends

Last year, the Province centralized certain financial activities at the Ontario Financing Authority. This move was taken to reduce duplication, achieve efficiencies and lower overall borrowing costs. As a result of this initiative, opportunities to generate potential annual savings of some $7 million were identified.

Initiative	**1996-97**	**1997-98**
Banking Tender	✔	
Cash Flow Optimization Project		✔
Tender for Fiscal Agents and Custodial Services	✔	
Development of Pooled Fund Structure	✔	
Implementation of Pooled Fund Structure[5]		✔

This year, the Province will look at ways to improve the timeliness of its cash flows, including tax remittances and flows to transfer payment partners. Another area of operations to be reviewed is the expanded use of debit cards and electronic banking technology. As new efficiencies ease cash balance requirements, liquid reserve levels may be lowered, leading to lower Public Debt Interest charges.

[5] A pooled fund structure delivers economies of scale achieving gains associated with timing, liquidity and market access. It represents another way in which use of provincial credit is optimized.

Appendix I: Financial Tables

Introduction

The appendix provides in-depth information on the Province's debt portfolio.

Chart 1 displays the distribution of Provincial debt between public and non-public markets as of March 31, 1997. Prior to 1991, the Province mainly financed its borrowing requirements in non-public markets from public sector pension funds and the Canada Pension Plan. In 1991, the Province re-entered public capital markets after the partial deregulation of public sector pension funds in Ontario. As non-public debt matures, it will be refinanced from the public capital markets. Over the last year, the Ontario Financing Authority has replaced maturing debt, borrowed at interest rates as high as 16.9 per cent, with long-term debt at interest rates as low as 7.5 per cent.

The second chart shows debt outstanding by currency. With about $102 billion in total debt outstanding, the Canadian dollar remains the Province's core market ($66.3 billion), followed by the U.S. dollar ($23.5 billion), and the Japanese yen ($4.9 billion).

Table I(A) is a five-year summary of the Province's public and non-public debt outstanding.

Table I(B) presents the maturity schedule for debt issued by the Province.

Table I(C) summarizes the financial contracts entered into by the Ontario Financing Authority as part of its prudent practices in managing the Province's debt. These contracts limit the exposure to interest rate and currency fluctuations.

Series II displays detailed information, such as date of issue and maturity, interest rates, original and currently outstanding issue amounts, on each of the Province's public and non-public issues.

Chart 1

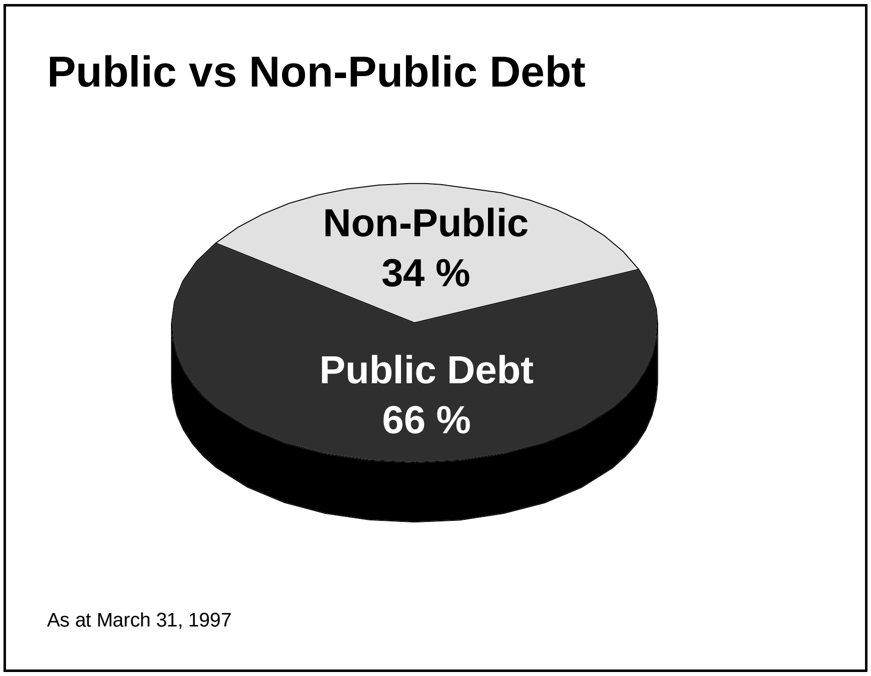
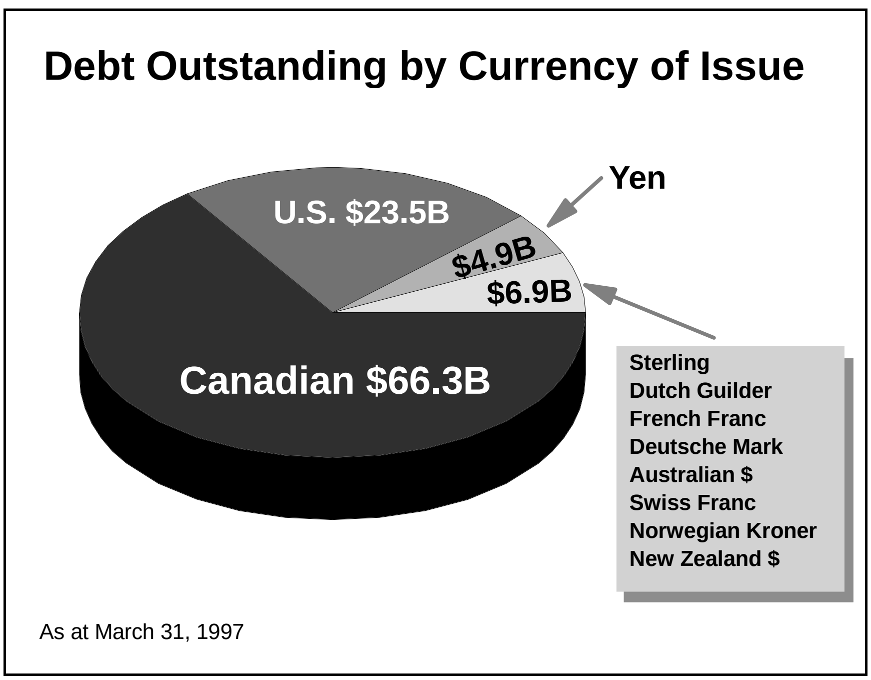


Chart 2



Paper E

The R&D Opportunity: Cutting Taxes and Creating Jobs

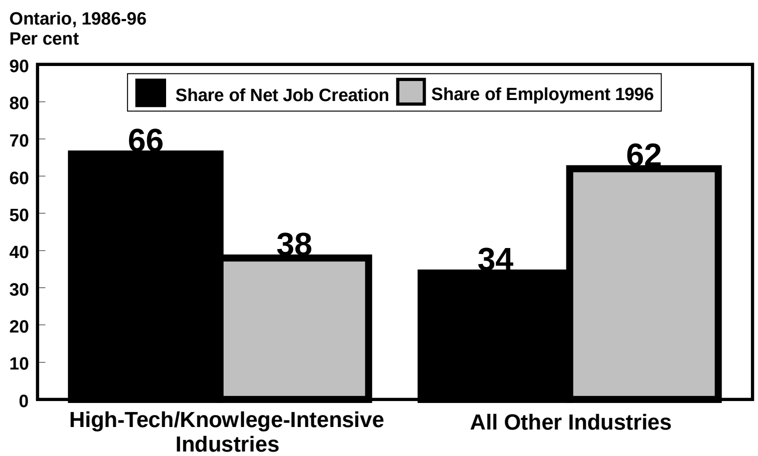
Innovation, Economic Growth and Job Creation

This paper is about jobs — creating new and better jobs in the future and ensuring that the province keeps the jobs it now has. Successful private-sector companies are the engine of job creation in the Ontario economy. The Government's plan is to create a positive business climate to unleash the power of private-sector job creation — by cutting taxes, by investing taxpayers' money more wisely, and by removing barriers to private-sector growth.

The stakes are high. Innovative economies, like Ontario's, that provide fertile ground for knowledge-based companies to grow can look forward to good jobs and a high standard of living in the future. Those that are not up to the challenge will see high unemployment and a declining standard of living.

- The job creation payoffs from innovation and research and development are substantial. During the last 10 years, two of every three new jobs in Ontario were created in knowledge and technology-based industries.

High-Tech and Knowledge-Intensive Industries* Are Job Growth Leaders



* High-tech/knowledge-intensive industries based on a weighted average of high-tech (determined by share of high-tech non-labour inputs) and knowledge-intensive (determined by share of weeks worked by university graduates). Commercial sector only.

Sources: Department of Finance Canada and Ontario Ministry of Finance

Innovation is the key that unlocks the door to knowledge-based growth and job creation. Just as it is necessary to invest in people and in physical capital for the economy to grow and create jobs, so also is it necessary to invest in innovation. Research and development – R&D – is an investment in innovation, in economic growth and in job creation. In other words, R&D is an investment in Ontario's future.

The Province's plan — cut taxes, invest wisely, and rely on the private sector for job creation and economic growth — will work for R&D just as it is working in other areas. Supporting R&D through tax cuts is one important way of creating good, long-lasting jobs. Encouraging the province's leading companies, large and small, to partner with Ontario's finest universities is another effective way to build the knowledge that will enable our companies to compete on a world scale and create jobs.

The Government will contribute $500 million to an R&D Challenge Fund that will result in a total investment of $3 billion over 10 years. This investment will promote greater partnership and collaboration between the private sector and Ontario universities and support research excellence in our universities. In addition, the Government is introducing seven new tax cuts to support private-sector investment in R&D and innovation, including a new 20 per cent refundable tax credit for business-sponsored R&D performed by universities and other post-secondary educational institutions in Ontario. These new tax measures will help support a further $3 billion in private-sector investments over the next 10 years.

In total, these measures will help ensure that Ontario remains one of the most competitive jurisdictions in the world in which to perform R&D. Their purpose is to move the economic yardsticks ahead – to create jobs, increase productivity, and raise incomes.

R&D and Innovation Key to Job Creation and Growth

In the 21st century, the ability to create and apply commercially valuable knowledge will separate the economic leaders from the rest of the pack. Companies throughout the world's advanced economies know this and are seeking ways to use knowledge to create competitive advantages.

R&D is an investment in innovation — the development and application of new knowledge to produce new products and services and to find new, more productive ways of doing things. Innovation is the cornerstone on which a high-income, job-creating economy is built.

R&D influences job creation and economic growth in a variety of ways:

- High R&D economies have a better chance to be in on the ground floor when new fast-growing industries that will be the job creation machines of the future are born.
- Fast-growing, innovative companies, many of which invest heavily in R&D, create a disproportionate share of new jobs.
- As new knowledge flows from one part of the economy to other parts, the productivity of capital and labour both rise. A general-purpose technology such as computing illustrates how new knowledge can ripple through the economy with profound effects on both what is produced and how it is produced.
- Even knowledge that is protected by intellectual property rights can benefit other companies through “demonstration effects” where companies learn by observing the products and services offered by their competitors.
- The skills and knowledge acquired through R&D diffuse through the economy as people change jobs and take their expertise with them.
- R&D capabilities make companies more proficient in adopting and commercializing new technologies.
- Success breeds success. Clusters of high-technology companies and institutions such as those in the Kitchener-Waterloo-Cambridge-Guelph Technology Triangle or the Ottawa area attract new investment and generate new “spin-off” companies.
- R&D-intensive sectors generate approximately 22 per cent of the province’s merchandise exports. If autos are excluded, the export share of R&D-intensive industries rises to close to 40 per cent.

All of this means that the economy-wide returns from R&D are much greater than the returns to any individual firm that performs R&D. Estimates of the total economic return to R&D typically range from 50 to more than 100 per cent.

Ontario's High-Technology Firms Create Jobs

R&D-intensive companies in Ontario are turning successful innovation into jobs. Ontario's high-quality technological infrastructure, including its educated workforce, provides a strong foundation for continued growth.

Newbridge Networks Experiences Record R&D, Sales and Employment Growth

Newbridge Networks has become one of Canada's top corporate R&D performers and a world leader in the design and manufacture of networking products and systems for multimedia communications. Innovation at Newbridge has resulted in the creation of seven new Ontario-based advanced-technology affiliates. Last year, the company increased its Ontario employment by about 20 per cent. Today, Newbridge employs about 5,700 people at its Kanata, Ontario headquarters and worldwide facilities.

IBM Canada's Success Results in Ontario Jobs

IBM Canada is one of Canada's top corporate R&D performers and a leading provider of advanced information technologies, including computer systems, software, networking systems, storage devices and microelectronics. Last year, growth in demand for computer systems and services and networking systems caused the company to increase its full-time workforce by almost 2,800 positions. More than half of these new jobs were in Ontario. Today, IBM Canada and its subsidiaries employ more than 13,000 people at its Markham headquarters, Toronto research facility and other locations across Canada.

Com Dev Increases Ontario Employment

Com Dev is Canada's largest exporter of communications satellite equipment, including satellite multiplexer and switching networks. The company also produces scientific instruments and subsystems that play a crucial role in monitoring changes in the earth's environment. Last year, the company's Ontario employment increased by about 20 per cent. Today, Com Dev employs about 1,300 people at its Cambridge, Ontario headquarters and national and international facilities.

Hummingbird Achieves Strong Sales and Employment Growth

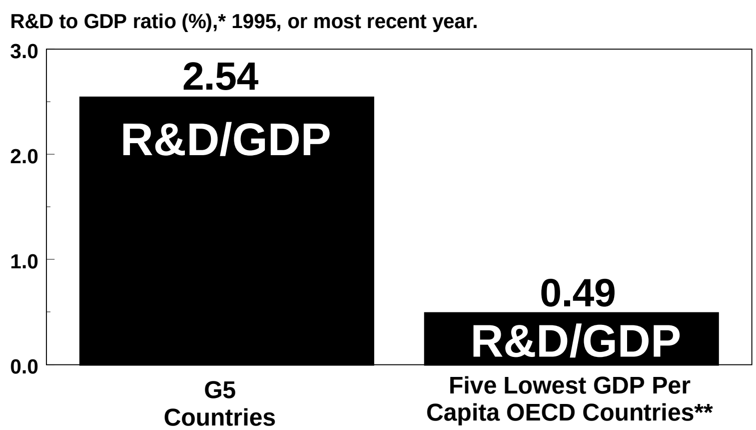
Hummingbird Communications develops software that provides personal computers with easy access to information and applications running on mini and mainframe host computers. Last year, strong growth caused Hummingbird to increase its Ontario employment by more than 60 per cent. Today, Hummingbird employs more than 350 people at its North York headquarters and international locations.

R&D Linked to Economic Success

Successful countries generally invest more in research and development than others. The United States, Japan, Germany, France and the United Kingdom, the high-income G5 countries, invest an average of more than five times as much of their economic resources in R&D as Turkey, Mexico, Greece, Portugal and Spain, the five lowest per capita income countries in the OECD.

High-Income Countries Invest More in R&D

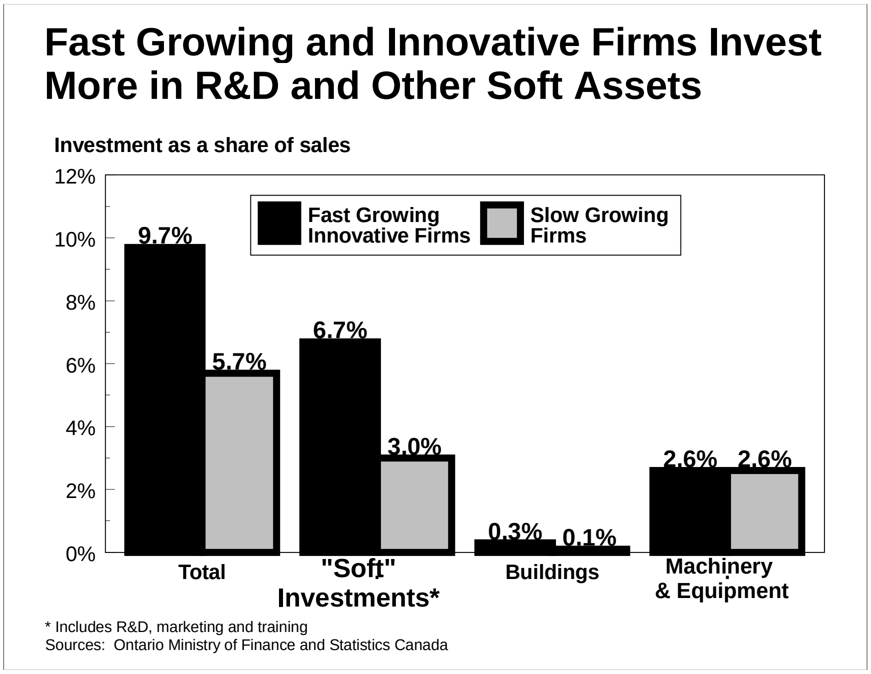
R&D Expenditure as a Percentage of GDP



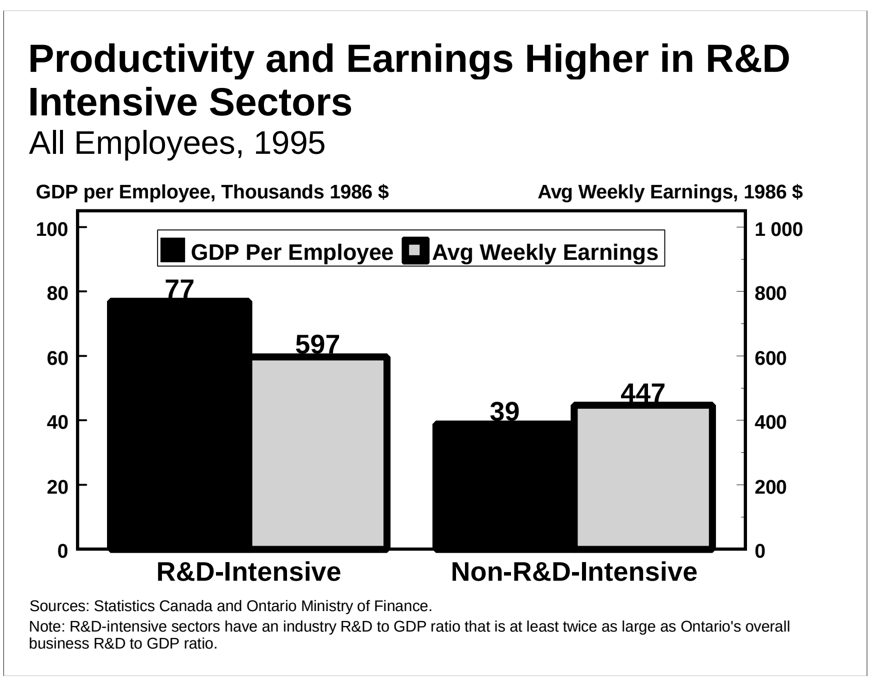
Source: OECD

Notes: *Weighted average of R&D to GDP ratio. **Excludes new OECD countries.

Successful firms also invest more in what are referred to as “soft” assets such as R&D and intellectual capital. The fastest growing firms generally invest more than twice as much in R&D, marketing and training as firms that grow more slowly, even though they invest about the same proportion of their sales in physical assets. Sixteen of Ontario’s largest R&D-performing companies increased their R&D spending by more than 100 per cent between 1989 and 1995.



R&D-intensive industries are highly productive. Their productivity rose from about $45,500 per employee in 1987 to almost $77,000 per employee in 1995 (in constant 1986 dollars), while productivity in non-R&D-intensive industries stagnated. As a result of their higher productivity, average weekly earnings in R&D-intensive industries are higher than average.



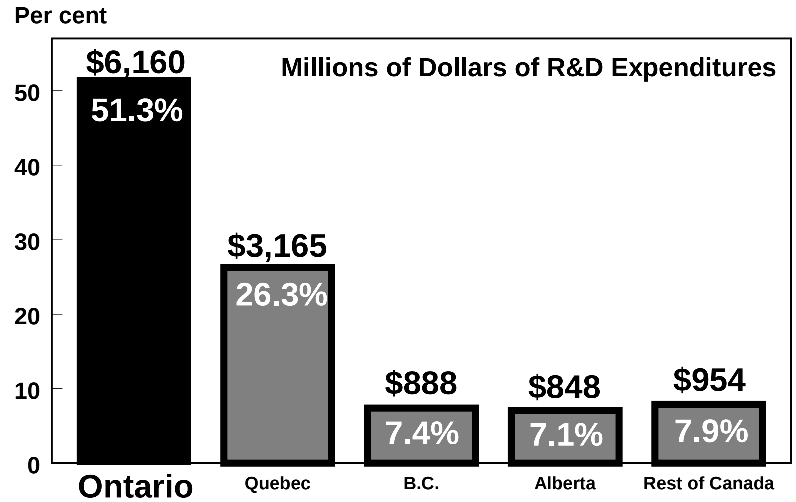
Ontario's R&D Strengths

The province has a strong R&D foundation on which to build. It is the largest R&D performer in Canada and the leader in technology adoption. It is also a leader in key R&D industries and home to most of Canada's largest R&D companies.

Canadian Leader in R&D

Ontario has the most R&D-intensive economy in Canada, with a 2.0 per cent ratio of R&D to GDP. In 1994, approximately $6.2 billion of R&D was carried out in Ontario, more than in the rest of Canada combined.

Distribution of Canadian R&D by Province, 1994

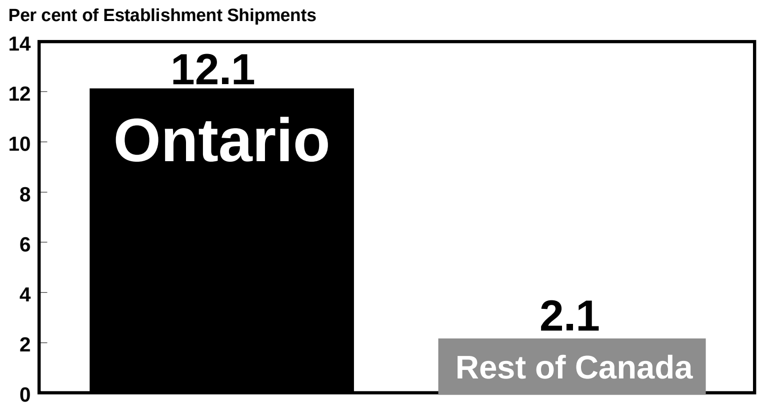


Sources: Statistics Canada and Ontario Ministry of Finance

Leader in Technology Adoption

Ontario companies also lead Canada in their ability to use new technology. Manufacturing companies in Ontario have the highest rate of technology adoption in Canada and are the most sophisticated users of technology. The proportion of companies using six or more different types of advanced technologies is almost six times higher in Ontario than in other provinces.

Use of Multiple Advanced Technologies*
Manufacturing Sector, 1993



*Use of at least one advanced technology from each of the following groups: design & engineering, fabrication & assembly, automated handling systems, inspection & communication, manufacturing information systems, and integration & control.

Source: Statistics Canada

Leading R&D Industries and Companies

Ontario's primary R&D strengths lie in seven industries that account for 64 per cent of business R&D spending: telecommunications, financial services, aircraft, business machines, pharmaceuticals, computing, and engineering and scientific services.

Ontario is home to many of Canada's leading R&D-performing companies, including Nortel, the largest R&D performer in Canada. The presence of knowledge-based companies often leads to the creation of more knowledge-based companies. Two of Ontario's leading R&D companies, Newbridge Networks and Corel Systems, are third generation spin-offs from Nortel.

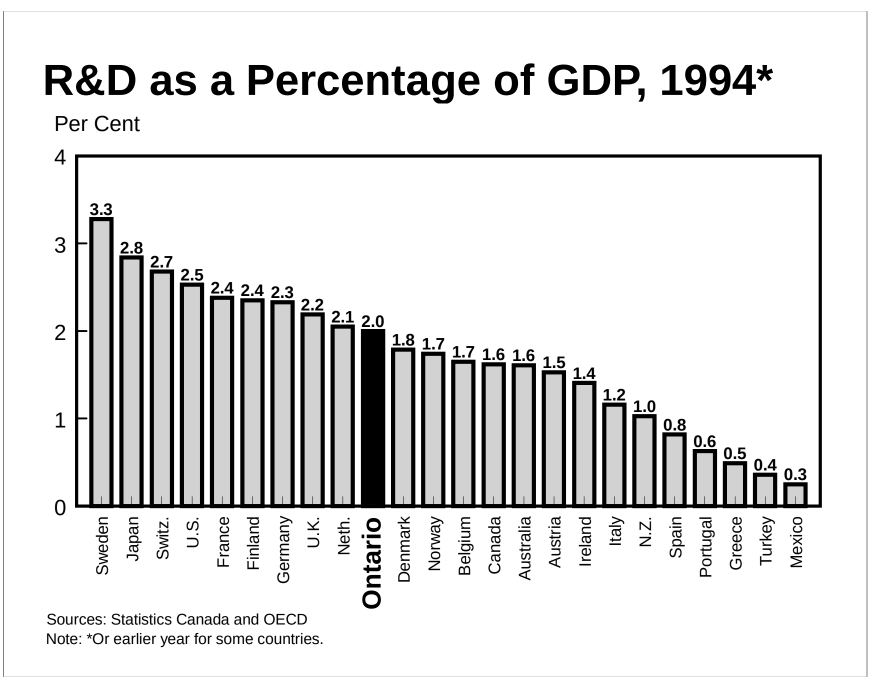
Ontario's Top Seven R&D Performing Sectors, 1989-94

Industry	1994 Industrial R&D Spending ($ Millions)	1994 Share of Canada R&D (Per cent)	Ontario Growth 1989-94 (Per cent)
TOP SEVEN	**2,503**	**64**	**58**
Telecommunications Equipment	994	90	60
Financial Services	385	83	148
Aircraft & Parts	290	49	66
Business Machines	271	83	10
Pharmaceuticals & Medicine	197	50	121
Computer & Related Services	188	48	11
Engineering & Scientific Services	178	29	39
All Industries	**3,905**	**56**	**42**

Sources: Statistics Canada and Ontario Ministry of Finance

Ontario in OECD Top Ten

Ontario leads Canada in R&D performance. In international terms, the province would rank tenth among 26 OECD countries in R&D spending as a per cent of GDP.



Taking Action: A New Approach to R&D and Innovation

Ontario has a solid basis on which to build new competitive advantages through R&D – competitive industries, leading R&D companies, a highly skilled workforce, and a positive business climate. The province's R&D performance is well ahead of the Canadian average and its innovative capabilities are strong.

The Province's innovation and R&D policies are designed to create a hospitable climate for innovation by companies, universities and other research institutions, leading to private-sector growth and job creation. However, new policies are needed to ensure that Ontario's economy continues to become more innovative and knowledge-intensive. The Government is taking action to build on the province's strengths and to ensure that Ontario has an innovative economy able to succeed in global competition.

Building Business-University Partnerships: A Key to Knowledge-based Industrial Clusters

North America has a number of geographic concentrations of high-technology companies, universities and other research institutions. Silicon Valley, the most famous example of a cluster of companies and research institutions, contains 6,000 high-tech companies with total sales of over $200 billion.

It is not enough to create the general conditions in which R&D can flourish. To realize the potential economic payoff from R&D in Ontario, businesses and universities need to work together to produce the critical mass necessary to achieve research excellence and competitive advantage in technology and knowledge-intensive industries. Therefore, the Government's major new policy direction in R&D is to provide greatly increased incentives for businesses and universities to build productive and mutually beneficial partnerships.

Ontario's new R&D measures — particularly the R&D Challenge Fund and the Ontario Business-Research Institute Tax Credit — are designed to encourage the kind of mutually advantageous cooperation between business and universities that helps to create the Silicon Valleys of the world and the prosperity they bring.

Businesses and Universities Working Together To Create Jobs and Improve Competitiveness

Businesses are increasingly looking to universities to help keep them at the forefront of innovation. University-industry collaboration on advanced research results in new products, highly-skilled workers and a climate of innovation that attracts knowledge-intensive firms.

Dofasco Inc. - McMaster University

Dofasco and the Natural Sciences and Engineering Research Council are co-funding a research chair in process metallurgy at McMaster University to explore ways of reducing the cost of producing high-quality steel.

Nortel Announces Institute for Telecommunications at University of Toronto

Nortel has announced the creation of a Nortel Institute for Telecommunications at the University of Toronto. The Institute will fund programs that include a masters degree in telecommunications, a graduate scholarship for telecommunications, a chair in network architecture, a chair in emerging technology and an applied physics laboratory. Nortel is also supporting a new School of Information Technology and Engineering at the University of Ottawa.

Chrysler Canada and University of Windsor Open New Automotive Research Centre

In 1996, Chrysler Canada and the University of Windsor opened a new Automotive Research and Development Centre in Windsor. The first co-operative automotive research facility of its kind in Canada, the Centre will build on Chrysler's expertise in alternative fuels and pursue niche research in new automotive product technology. It will also provide co-operative automotive product research through research chairs in Automotive Design, Alternative Fuels and Ultrasonic Microscopy endowed by Chrysler Canada.

Collaboration by R-Theta Inc. and University of Waterloo Results in Sales and Job Growth

Research collaboration between R-Theta Inc., the University of Waterloo and the Manufacturing Research Corporation of Ontario, an Ontario Centre of Excellence, has resulted in sales and employment growth at the Ontario company. R-Theta, based in Mississauga, has seen a fourfold increase in sales and a fivefold increase in employment. The company now employs more than 100 people in Ontario.

Supporting Leading-Edge Research Institutions

An excellent university research system is one of the building blocks for successful innovation in the rest of the economy. The university research system links to private-sector innovation in a variety of ways — through research carried out for private-sector companies, by providing a research environment that attracts top-quality faculty and graduate students, by making discoveries and developing applications of research with commercial value, and by providing a stream of highly skilled people for companies to hire.

However, from a business perspective, university research is a high-risk proposition. A recent study by William M. Mercer Limited estimated that only about one in 6,000 apparent discoveries eventually had appreciable commercial value. These odds could be lowered if the province's universities had even more world-class researchers, if more funds were available for their research, and if more of this research captured the interest of the private-sector from the outset.

The R&D Challenge Fund and the Ontario Business-Research Institute Tax Credit will provide incentives for businesses to invest in the work of researchers of international calibre and for universities to seek private-sector partners. The quality of human capital, represented partly by the presence of world-class researchers, is a key factor determining the location of corporate R&D investment. These kinds of incentives can lower the cost and the risk of investment in R&D for the private-sector, and give companies early access to the results of R&D.

Developing Highly Skilled People for Knowledge and Technology Businesses

The ability to generate and apply new knowledge is a scarce resource. Those jurisdictions that are able to provide the highly skilled people needed to compete in knowledge- and technology-based industries will attract new investment.

Ontario is already very competitive in this respect. In 1994, 46.5 per cent of Ontarians aged 25-64 had completed post-secondary education, the highest percentage in the OECD.

The new R&D Challenge Fund and the Ontario Business-Research Institute Tax Credit will add to Ontario's attractiveness for world-class researchers and R&D investments. In doing so, they will also improve the quality of teaching in participating universities and other post-secondary educational institutions in Ontario.

Ontario's personal income tax cut will also help to attract and retain world-class researchers. Changes to Ontario's Co-operative Education Tax

Credit will provide additional incentives to businesses hiring post-secondary students enrolled in leading-edge technology programs. Ontario is also taking steps to ensure that taxpayers' investments in educating our young people translate into jobs. Businesses will be eligible for a 10 per cent tax credit for hiring an unemployed graduate from a post-secondary educational institution in Ontario. This will help provide our educated youth with on-the-job training and will foster a better trained and educated workforce.

Financing R&D and Innovation

The availability of external financing for small, knowledge-based companies in Ontario is critical to their growth. Three key trends are supporting an improvement in access to capital for these companies.

First, private-sector financial institutions are developing specialized funding vehicles to meet the needs of knowledge-based industries. The five major banks have established over 30 specialized lending units for knowledge-based companies in Ontario.

Second, more venture capital is becoming available in Ontario. In 1996, venture capital companies invested $320 million in technology-based companies, up from $156 million in 1995. Most of this increase was accounted for by the rapid growth in venture capital investments in technology-based sectors by Labour-Sponsored Investment Funds:

- LSIFs accounted for 53 per cent of venture capital invested in technology-based companies in Ontario in 1996, up from 34 per cent in 1995.
- LSIFs allocated 71 per cent of their total 1996 investment to technology-based companies, up from 64 per cent in 1995.

The 1997 Budget requires LSIFs to direct more of their investments to small business.

Furthermore, Ontario's small business investment tax credit provides incentives to financial institutions to provide capital to start-ups and growing knowledge-based companies in Ontario. As a result of the 1997 Budget, financial institutions will now be able to claim a 75 per cent tax credit for equity investments of $50,000 and under in small businesses.

Third, new links between financial institutions and Ontario universities are emerging to help commercialize promising research. For example:

- The Royal Bank of Canada and Quorum Growth Inc., a venture capital company, have formed the Technology Launch Initiative to work with universities and research laboratories to identify and accelerate the commercialization of promising new Canadian technologies.

- The Canadian Medical Discoveries Fund has established University Medical Discoveries to develop and commercialize early-stage biomedical research from Canadian universities, hospitals and research institutes.

- The University of Guelph has set up a publicly listed technology management firm, Guard Inc., to convert the inventions resulting from university research into new high-technology business enterprises.

Commercialization activities have already proven beneficial to both the individual universities and the Ontario economy as a whole. The University of Toronto earned $3.1 million of royalties in 1995-96. To encourage further commercialization of university research, the Community Small Business Investment Funds announced in the 1997 Budget can be sponsored by universities or groups of universities and used to more rapidly commercialize university-generated innovations.

Fostering Technology Adoption and Commercialization

The tax system is also designed to encourage the adoption and commercialization of new technology. As a result of the 1997 Budget, Ontario will now allow corporations to deduct 100 per cent of the acquisition costs of intellectual property that is used in their active business. To qualify, the intellectual property must be used exclusively in Ontario by the firm to implement an innovation or invention. Simply buying the rights to sell the product will not be sufficient to claim the Ontario New Technology Tax Incentive.

To enhance technology adoption, Ontario will no longer apply a tax on firms that acquire new technology from foreign parent corporations. This tax of 5 per cent on technology royalty payments acted as a barrier to the adoption of new technology in Ontario.

Supporting Innovative Growth Firms

A relatively small number of firms are major job creators and contributors to economic growth. During the last economic expansion, 5 per cent of small companies were responsible for 43 per cent of all job creation by small companies in Canada, and 10 per cent of medium-sized companies were responsible for 50 per cent of all job creation in their category. A recent Statistics Canada study found that innovation is the key characteristic distinguishing the fastest growing companies from companies that grow more slowly.

The tax system in Ontario provides R&D incentives at critical stages in the innovation process to support innovative and growing firms. As a result of the 1997 Budget, equipment used by a manufacturer exclusively for a combination of R&D and manufacturing will be exempt from Retail Sales Tax. In addition, R&D expenditures will be exempt from Ontario's capital tax. This change will help reduce the costs of acquiring new R&D equipment.

To provide innovative growth firms with the financing they need to grow and create jobs, small firms are eligible for Ontario's 10 per cent refundable tax credit for R&D performed in Ontario. For business-sponsored R&D performed by universities, small firms will be eligible for both the 10 per cent Ontario Innovation Tax Credit and the 20 per cent Ontario Business-Research Institute Tax Credit, for a total of 30 per cent for qualifying R&D expenditures in Ontario.

The Provincial reductions in personal income tax rates and the Employer Health Tax will also leave more money in the hands of small business to invest where it is needed most.

Enhancing Ontario's R&D Tax Competitiveness

The 1997 Ontario Budget introduces seven new tax measures to support R&D and innovation. These measures will boost Ontario's support for R&D and innovation by $100 million per year, provide generous R&D tax relief for corporate-sponsored university R&D, and encourage the adoption and commercialization of new technology.

Ontario's Current R&D Tax Incentives

Ontario currently offers two major tax incentives that benefit R&D-performing companies and innovative growth firms: the R&D Super Allowance and the Ontario Innovation Tax Credit.

R&D Super Allowance

- The R&D Super Allowance provides additional deductions for corporate income tax purposes for qualifying R&D performed in Ontario.
- For corporations which are not Canadian-controlled private corporations, Ontario provides a 25 per cent additional deduction on qualifying R&D expenditures. For Canadian-controlled private corporations (CCPCs), Ontario provides a 35 per cent additional deduction for qualifying R&D expenditures in Ontario.
- To foster incremental R&D spending, the Super Allowance further enriches the allowed deduction. For incremental expenditures, the 25 per cent and 35 per cent additional deductions are increased by 50 per cent to 37.5 per cent and 52.5 per cent respectively. Incremental expenditures are determined by the amount that R&D expenditures in a year exceeds the average R&D expenditures over the previous three years (i.e., three-year moving average).

Ontario Innovation Tax Credit (OITC)

- To foster the development of growing innovative firms, Ontario provides a 10 per cent refundable tax credit for small and medium-sized CCPCs performing R&D in Ontario.
- The OITC applies to 100 per cent of qualifying current expenses such as salaries and wages, and to 40 per cent of qualifying capital expenses.
- OITC is targeted to small- and medium-sized R&D performers based on federal taxable capital and active business income thresholds:
  - Firms must have less than $200,000 in taxable income and less than $10 million in taxable capital to qualify.
  - OITC is phased out when firms exceed $400,000 in taxable income or $15 million in taxable capital.

The 1997 Budget introduces seven new tax initiatives to support R&D and innovation:

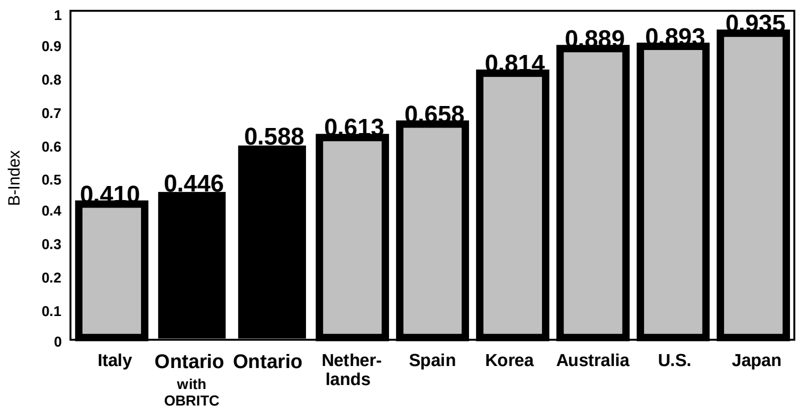
- Effective May 7, 1997, Ontario will be providing a 20 per cent refundable R&D tax credit for corporate-sponsored R&D performed in Ontario by eligible Ontario universities and other approved post-secondary educational institutions and research associations. The **Ontario Business-Research Institute Tax Credit** will also be available for small and medium-sized firms claiming the OITC.

Ontario will be providing a 15 per cent tax credit on qualifying labour costs relating to **computer animation and special effects**. This credit will help ensure that Ontario retains and builds on its world-class reputation in digital animation.

- The **co-operative education tax credit will be expanded** to include qualifying work placements from leading-edge technology programs, such as computer and information technology. The enhanced credit will be effective January 1, 1998.
- Firms **acquiring and using intellectual property to implement an innovation or invention** will be able to claim an immediate 100 per cent deduction of the qualifying acquisition costs for Ontario income and capital tax purposes.
- To foster the adoption of new technology, Ontario will be **eliminating the corporate income tax add-back rule on the acquisition of foreign technology**, such as royalty payments for computer software.
- The **retail sales tax exemption for R&D equipment used by manufacturers will be expanded** to include qualifying equipment used exclusively for a combination of manufacturing and research and development activities.
- To help growing R&D firms, corporations will be able to **deduct immediately all R&D and qualified intellectual property expenditures for capital tax purposes**.

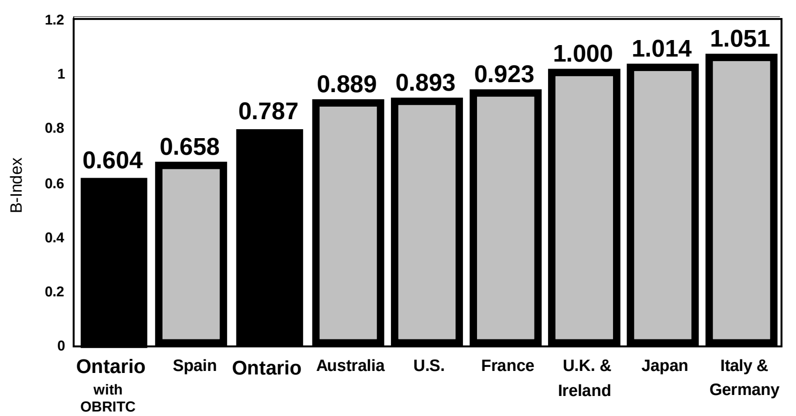
According to a 1997 study by the Conference Board of Canada, when compared to OECD countries, Ontario ranked as the second most competitive jurisdiction for R&D performed by both large and small manufacturing firms. The 1997 Budget measures for R&D and innovation will help ensure that Ontario can continue to attract global investments in R&D.

Ontario's R&D Tax Competitiveness Compared to Selected OECD Countries for a Small Manufacturing Firm, 1995-96



Note: The more favourable the tax treatment, the lower the "B-index" (present value of before-tax income required to cover the cost of an initial R&D investment and to pay the applicable income taxes to become profitable).
Sources: The Conference Board of Canada (1997) and Ontario Ministry of Finance.

Ontario's R&D Tax Competitiveness Compared to Selected OECD Countries for a Large Manufacturing Firm, 1995-96



Note: The more favourable the tax treatment, the lower the "B-index" (present value of before-tax income required to cover the cost of an initial R&D investment and to pay the applicable income taxes to become profitable).
Sources: The Conference Board of Canada (1997) and Ontario Ministry of Finance.

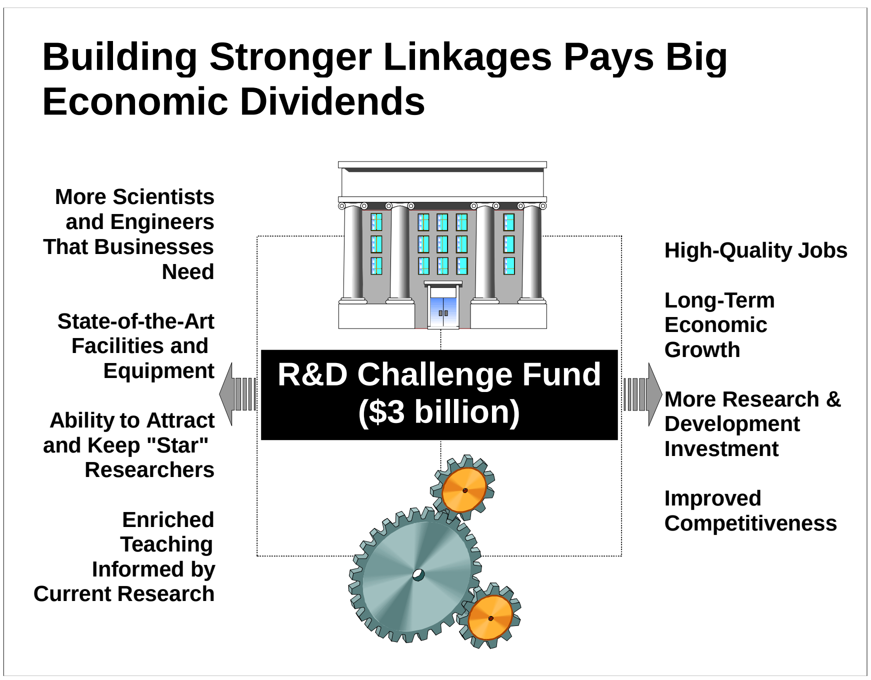
The R&D Challenge Fund

Overview

The Government is creating an R&D Challenge Fund to promote business-university partnerships and research excellence. The Fund will result in a total of $3 billion of R&D at universities in the next 10 years.

The objectives of the R&D Challenge Fund are:

- to support job creation and economic growth
- to promote world-class research of interest to the private sector
- to encourage more collaboration between the private sector and research institutions.



There is a growing trend in industrialized countries for business and universities to work together more closely — and for an increasing portion of university research to reflect private-sector needs and priorities that promote job creation and economic growth. The R&D Challenge Fund will promote this trend in Ontario.

All participants will benefit. Taxpayers will benefit from more jobs and higher incomes. Universities will benefit because they will gain access to more government and private-sector funding. Students will benefit from an increasingly rich and relevant body of applied research that informs the teaching they receive and provides increased opportunity for graduate studies. Businesses will benefit because they will gain earlier access to research results; they will be better able to identify potential commercial applications of research; and they will be able to identify and hire highly qualified graduates.

Flexible Strategic Focus

The main priority of the R&D Challenge Fund will be to attract and keep world-class researchers in Ontario. The Fund will have the flexibility to provide support for whatever is needed to achieve this, including:

- leading-edge research that benefits today's growing industries and helps create the industries of the future
- state-of-the-art equipment and facilities
- incentives for gifted researchers to work in Ontario, including endowed chairs.

The Fund will have a people focus rather than a traditional project focus. Proposals from universities and other research institutions will be expected to make a clear link between the proposal and the attraction and retention of these key researchers.

All disciplines will be eligible for support from the Challenge Fund, but it is expected that the Fund will primarily focus on the fields of natural science and engineering, mathematics, health sciences, and environmental sciences.

Funding will be awarded on a competitive basis, according to a proposal's contribution to research excellence and economic growth. The evidence of its economic benefit will be its ability to attract private-sector support. A peer review process will be used to assess the quality of the research that would be supported by a proposal.

Universities, research-oriented health care facilities, and other research institutions will be eligible to receive support from the Fund. A Board will be established to make funding decisions. The Board will be made up of business leaders, leading researchers, and government representatives.

The Challenge Fund will support both longer-term discovery research of interest to the private sector and shorter-term research with more immediate industrial applications. In both cases, the research institution or the principal investigator will own the intellectual property rights arising from the research. For research that is expected to yield immediate industrial applications, the research institution or the principal investigator may negotiate with their corporate partners rights of access, in the form of a licence or other commercialization agreement, usually in proportion to the company's contribution. Contract R&D, however, will not be eligible for support from the Fund.

Competition for World-Class Researchers Intensifying

Top scientists and world-class researchers act as magnets for new investment. They attract the best graduate students, generate spin-off companies, and attract private-sector funding.

The link between star researchers and economic development has caught the attention of many state governments. North Carolina and Georgia are reported to be spending tens of millions of dollars each year to lure top scientists to their states. Georgia's Research Alliance has spent over $160 million since the early 1990s to recruit 22 top scientists. They expect their investment to pay off in new high-tech industries and high-paying jobs.

Amgen Inc., an American biopharmaceutical firm, is investing $10 million per year in Ontario because of the presence of a particular molecular biologist. The company initially sought to attract this individual to California but when he declined, it decided to bring its investment to him in Toronto.

However, Ontario has not been successful enough in attracting and keeping these high-calibre researchers. In recent years, for example, the University of Toronto lost one of its world-class biotechnology researchers to British Columbia, one of the world's most promising astrophysicists to Princeton, New Jersey, and a promising computer scientist, also to Princeton.

Ontario's Investment

Ontario will contribute $500 million to the Fund over 10 years. Beginning in 1997-98, the Province will provide $50 million to the Challenge Fund each year.

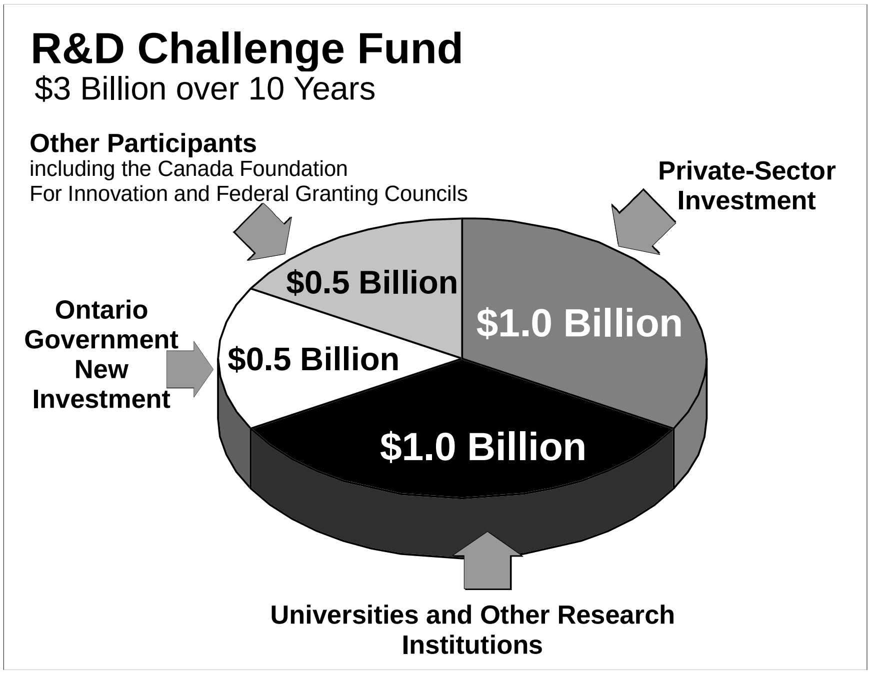
At least one-third of the funding for all R&D Challenge Fund projects must come from the private sector. To provide companies with an added incentive to participate, corporate contributions which qualify as R&D expenditures under the Income Tax Act (Canada) will be eligible for the new 20 per cent tax credit. This means, among other things, that the R&D is related to the corporation's business and can be exploited by the corporation in its business.

Universities typically set aside monies from within their annual budgets to promote competition for internal research resources. To participate in the Fund, universities will be expected to use these types of funds in support of their participation. This participation is expected to total at least $1 billion over the life of the Fund.

The Challenge Fund will initially match funds from universities and other research institutions on a dollar for dollar basis. The funding participation expected from universities and other research institutions for each dollar contributed by the Province will increase over time.

Other participants may include federal and international granting councils and the recently announced Canada Foundation for Innovation. The R&D Challenge Fund will help to ensure that Ontario's universities are able to compete for funding from the Canada Foundation for Innovation on a timely basis.

This new program will result in a total of $3 billion of R&D in our universities and other research institutions over the next 10 years.


R&D Challenge Fund
$3 Billion over 10 Years
Other Participants
including the Canada Foundation
For Innovation and Federal Granting Councils
Private-Sector
Investment
$0.5 Billion
$1.0 Billion
Ontario
Government
New
Investment
$0.5 Billion
$1.0 Billion
Universities and Other Research
Institutions

R&D Challenge Fund: Design Highlights

Funding

Ontario will contribute $500 million over 10 years:

- $50 million annually beginning in 1997-98
- at least one-third of funding for all projects must come from private-sector businesses
- qualifying corporate R&D contributions will be eligible for the Ontario Business-Research Institute Tax Credit.

Eligible Expenditures

The Challenge Fund will have the flexibility to provide support needed to attract and keep world-class researchers, including:

- leading-edge research that benefits today's growing industries and helps create the industries of the future
- state-of-the-art equipment and facilities
- incentives for gifted researchers to work in Ontario, including endowed chairs.

Eligible Applicants

Universities, research-oriented health care facilities and other research institutions.

These institutions will be expected to use internal resources to participate.

Other Participants

The R&D Challenge Fund is expected to attract a wide range of participants, including:

- corporations
- Canada Foundation for Innovation
- federal granting councils and other government sources
- not-for-profit institutes and organizations
- individuals.

Strategic Focus

All disciplines will be eligible for support from the Challenge Fund, but it will primarily target the following areas of research:

- natural sciences and engineering
- mathematics
- health sciences
- environmental sciences.

The Challenge Fund will support both longer-term discovery research and shorter-term research with more immediate industrial applications. Contract R&D will not be eligible.

Administration

Funding decisions to be made by a Board composed of leaders from the business community, leading researchers, and government representatives.

Board members, including the Chair, to be appointed by the Provincial Government. A small secretariat will be established to support the Board.

Conclusion

Our goal is an ambitious one — to keep Ontario at the forefront of innovation and R&D. Over the next 10 years, the actions announced in the 1997 Budget will support an estimated $6 billion of investment in R&D and innovation in Ontario.

The Ontario economy is strong and these new policies will make it even stronger. They are designed to further develop the critical mass needed for knowledge- and technology-based economic growth and job creation. The new tax cuts will help ensure that Ontario continues to attract global R&D investment. This will contribute to the rejuvenation of the province's business climate and further increase its attractiveness for investors.

The Province is also introducing powerful new incentives for business-university partnerships — the R&D Challenge Fund and the Ontario Business-Research Institute Tax Credit. These partnerships are one of the building blocks for the knowledge- and technology-based clusters of industries and institutions that are already a key engine of job creation in the province.

To stay at the leading edge of innovation, companies and institutions must have highly talented and skilled people. The 1997 Budget measures will help students to pursue higher education, help to attract the best minds to teach them, and increase their employment opportunities.

At the same time, new ideas and discoveries must be successfully commercialized to realize their full economic benefit. For many small, innovative companies, access to financing remains a barrier. The Government has introduced a variety of measures to encourage banks and venture capitalists to invest in knowledge- and technology-based companies, including Community Small Business Investment Funds.

For its part, the Government is making a major new commitment to innovation and R&D. We invite the business community, universities and other levels of government to work together to meet the innovation challenge. The Government will consult on the implementation of the R&D Challenge Fund and the tax cuts with those affected, including businesses, universities and other research institutions. The consultation process will take place quickly so that Ontario companies and universities can compete for funding as soon as possible.

Ontario Government Support For Innovation and R&D

Growing Innovative Companies

Current

. Ontario R&D Super Allowance
. Ontario Innovation Tax Credit
. Telecommunications Access Partnerships
. Innovative Growth Firm Connection, including wisdom exchanges

New

.15% tax credit for computer animation
.100% write-off for acquiring intellectual property
. Elimination of the add-back rule on foreign technology
. Expansion of the retail sales tax exemption for qualifying manufacturing and R&D equipment
. Capital tax exemption for R&D and intellectual property

Financing Innovation

New

. Enhancement of the Small Business Investment Tax Credit For Banks
. Community Small Business Investment Funds
. Changes to LSIF rules

Current

. Small Business Investment Tax Credit for Banks
. Tax incentives to venture capital

Highly Skilled People

Current

. Grants to universities and colleges
. Ontario Student Opportunity Trust Funds
. Ontario Student Assistance Program
. Co-operative Education Tax Credit
. Apprenticeship System
. Centres of Specialization in Colleges

New

. Graduate Transitions Tax Credit
. Co-operative Education Tax Credit for students in leading-edge technology programs.
. Animation, Communications Design and Technology Centre at Sheridan College

University/Industry Partnerships

New

. R&D Challenge Fund
. Business-Research Institute Tax Credit

Current

. Centres of Excellence
. Provincial research grants and contracts to universities and other research institutions
. University Research Overheads Envelope