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Ontario Fall Economic Statement: Much work left to be done in restoring Ontario's books

- The PC Party's inaugural fall fiscal update provided an opportunity for the new government to show how it plans to dig the Province out of its fiscal hole. However, the update was notably thin on budget projections outside of the current fiscal year.
- For FY 2018-19, the deficit is pegged at \$14.5 billion (1.7% of GDP). This is slightly smaller than the \$15 billion shortfall pegged by the Independent Commission of Inquiry (ICI). Revenues are \$2.7 billion lower than what the ICI estimated, largely owing to the cancellation of the cap and trade program. On the other side of the ledger, expenditures are \$3.2 billion lower, which the government largely attributes to the cancellation of previously planned spending, as well as expenditure management initiatives.
- A number of tax changes planned by the previous government will be cancelled. This includes previously-planned adjustments to income tax rates, brackets, surtax and credits. Additionally, the government will roll back planned changes to the Employer Health Tax exemption as well as to tax credits related to innovation and R&D.
- The government will not parallel a federal measure to phase out the \$500,000 business limit for corporations that earn between \$50,000 and \$150,000 of passive investment income (i.e. small business limit). This measure will be applauded by the small business community.
- Net debt is projected at 40.5% of GDP, up from 39.2% in 2017-2018. This leaves Ontario as one of the more indebted provinces.

New Measures

- One of the marquee new measures announced in the fiscal update was a new tax credit for low-income earners (known as LIFT). The government indicates that 1.1 million people in Ontario could benefit from the credit, which would provide low-income and minimum wage workers up to \$850 in tax relief and couples up to \$1,700. With this credit, workers earning the minimum wage would pay no income tax. Relief would gradually be reduced for taxpayers making above \$30k and families earning above \$60k. The credit would be effective starting January 1st, 2019 and cost the government \$125 million during the remainder of the fiscal year ending March 31st. Annualizing this figure would yield a cost of \$500 million - not too far off the cost estimated in the PC Party's election platform.
- In an effort to encourage the development of new rental supply, the government will re-introduce the rent control exemption for new units occupied after today. However, it will cancel the Development Charges Rebate Program, set up to provide rebates on development charges incurred during the construction of purpose built rental housing.
- The province plans to parallel any potential measures introduced by the federal government that accelerate the expensing of new depreciable assets. This would boost the competitiveness of businesses in the province but will come at some cost to the treasury.

Key Implications

- In a recent [report](#), we highlighted Ontario's challenging fiscal math. More specifically, in light of modest economic growth and slow gains in federal transfers, top-line revenue growth was expected to be moderate at best. On the spending side, the province will face pressures from rising debt service charges on its elevated debt burden as well as its promised \$8-\$9 billion in campaign promises when fully implemented. Under this scenario, we showed that the deficit swells further, and the province's net debt rises towards 49%, increasing the vulnerability of the economy to an unexpected setback.
- Given the urgency of the situation, the stage had been set for the Minister of Finance to make greater headway on reducing the deficit. In our pre-budget report we had projected a \$12.5 billion shortfall in the current year based on a stronger-than-expected economic performance (as well as savings announcements already unveiled). Even more importantly, we had hoped to get a clear idea of how it plans to overcome this challenge. Disappointingly, that detail has been left for another day. What we did learn is that the government won't back away from its campaign commitments easily no matter how challenging the fiscal environment.
- In sum, the government does appear intent on reducing the province's deficit in coming years, but much work remains. This will require some tough decisions to be made. In our view, the sooner the government reigns in the deficit the better. With a net-debt to GDP ratio of 40.5%, Ontario is already one of the more heavily indebted provinces.

GOVERNMENT OF ONTARIO FISCAL PLAN		
[C\$ billions unless otherwise noted]		
	2018 Budget Plan	
<i>Fiscal Year</i>	17-18	18-19
Revenues	150.6	148.2
% change	7.0	-1.6
Expenditures	154.3	161.8
% change	7.8	4.9
Reserve	0.0	1.0
Budget Balance	-3.7	-14.5
Net Debt	323.8	347.1
% of GDP	39.2	40.5

Note : Numbers may not add up due to rounding.
Source: Ontario Ministry of Finance, as at November 2018

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