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Tax Alert – Canada

Ontario Budget 2026

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

“In the midst of tariffs and economic uncertainty, our government is delivering on our plan to protect Ontario and build the most competitive, resilient and self-reliant economy in the G7. Trade tensions, supply chain pressures and shifting market dynamics are sending unpredictable economic shocks through industries and economies everywhere.”

“Our government’s plan to build a more competitive provincial economy includes a multi-year Tax Action Plan, which will attract investment, encourage economic growth and support job creation in the province.”

*Ontario Finance Minister Peter Bethlenfalvy
2026 budget, Minister’s Foreword*

On 26 March 2026, Ontario Finance Minister Peter Bethlenfalvy tabled the province’s fiscal 2026 budget. The budget contains several tax measures affecting individuals and corporations, including a decrease in the small-business corporate income tax rate effective 1 July 2026.

The minister anticipates deficits of \$13.8 billion for 2026-27 and \$6.1 billion for 2027-28, before returning to a surplus position of \$0.6 billion for 2028-29.

Following is a brief summary of the key tax measures.



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Business tax measures

Corporate income tax rates

Effective 1 July 2026, the small-business corporate income tax rate will decrease to 2.2% from 3.2%. The tax rate reduction will be prorated for taxation years straddling 1 July 2026. No changes are proposed to the general corporate income tax rate or to the \$500,000 small-business limit.

With the introduction of Bill 97, *Plan to Protect Ontario Act (Budget Measures), 2026*, on budget day, the proposed reduction in the small-business corporate income tax rate is considered substantively enacted for financial reporting purposes on 26 March 2026.

Ontario’s current and proposed future corporate income tax rates are summarized in Table A.

Table A - 2026 and 2027 Ontario corporate income tax rates¹

	Current ON rate	Proposed rates			
		2026		2027	
		ON	Federal and ON combined	ON	Federal and ON combined
Small-business tax rate ²	3.20%	2.70%	11.70%	2.20%	11.20%
General manufacturing and processing tax rate ²	10.00%	10.00%	25.00%	10.00%	25.00%
General corporate tax rate ^{2, 3}	11.50%	11.50%	26.50%	11.50%	26.50%

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

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

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

Other business tax measures

The minister also proposed the following business tax measures:

- ▶ **Regional opportunities investment tax credit** - The budget proposes to allow this refundable credit to expire, effective 1 January 2027. The government stated that it is, instead, focusing tax support more broadly through measures like the proposed small-business corporate income tax rate reduction and adoption of the federal measures allowing for accelerated depreciation and write-offs of certain assets available for use in a business. Expenditures incurred on or before 31 December 2026 will continue to be eligible for the credit.

- ▶ **Ontario computer animation and special effects tax credit** - Technical amendments will be made to clarify the credit calculation with respect to the minimum labour expenditure threshold.
- ▶ **Harmonization with federal administration changes** - Ontario will adopt federal provisions relating to proof of sending certain items by mail, personal service and electronic delivery. In addition, the province will adopt the federal rules related to when certain periods of time are not counted when computing the period of time that an assessment may be made.

Personal tax

Personal income tax rates

The budget does not include any changes to personal income tax rates but does include a decrease to the non-eligible dividend tax credit rate as a result of the reduction in the small-business corporate income tax rate, as explained below under “Other personal tax measures.”

The 2026 Ontario personal income tax rates are summarized in Table B.

Table B - 2026 Ontario personal income tax rates^{1,2}

First bracket rate ³	Second bracket rate	Third bracket rate	Fourth bracket rate	Fifth bracket rate
\$0 to \$53,891	\$53,892 to \$107,785	\$107,786 to \$150,000	\$150,001 to \$220,000	Above \$220,000
5.05%	9.15%	11.16%	12.16%	13.16%

¹ In addition, for 2026, a 20% surtax applies to basic Ontario tax in excess of \$5,818, and an additional 36% surtax applies to basic Ontario tax in excess of \$7,446.

² Individuals resident in Ontario on 31 December 2026 with a combined taxable and split income in excess of \$20,000 must pay the Ontario Health Premium. The premium ranges from \$nil to \$900 depending on the individual's taxable income, with the top premium being payable by individuals with taxable income in excess of \$200,599.

³ Individuals resident in Ontario on 31 December 2026 with taxable income up to \$18,930 pay no provincial income tax as a result of a low-income tax reduction. The low-income tax reduction (\$300 of Ontario tax) is clawed back for income in excess of \$18,930 until the reduction is eliminated, resulting in an additional 5.05% of provincial tax on income between \$18,931 and \$24,870

For taxable income in excess of \$181,440, the 2026 combined federal-Ontario personal income tax rates are outlined in Table C.

Table C - Combined 2026 federal and Ontario personal income tax rates

Bracket	Ordinary income ¹	Eligible dividends	Non-eligible dividends
\$181,441 to \$220,000 ²	48.26%	32.08%	41.69%
\$220,001 to \$258,482 ²	49.82%	34.23%	43.48%
Above \$258,482	53.53%	39.34%	47.74%

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

² The federal basic personal amount comprises two elements: the base amount (\$14,829 for 2026) and an additional amount (\$1,623 for 2026). The additional amount is reduced for individuals with net income in excess of \$181,440 and is fully eliminated for individuals with net income in excess of \$258,482. Consequently, the additional amount is clawed back on net income in excess of \$181,440 until the additional tax credit of \$227 is eliminated; this results in additional federal income tax (e.g., 0.29% on ordinary income) on net income between \$181,441 and \$258,482.

Other personal tax measures

In addition to harmonizing with certain federal administration measures noted above under the “Business tax measures” section, other personal tax measures announced in the budget include the following:

- ▶ **Non-eligible dividend tax credit** - Consequential to the reduction in the small-business corporate income tax rate, the budget proposes to reduce the dividend tax credit rate applicable to the taxable amount of non-eligible dividends from 2.9863% to 1.9863%, effective 1 January 2027. Assuming no changes to personal income tax rates are introduced for 2027, this change will result in an increase to the top marginal personal income tax rate applicable to non-eligible dividends from 47.74% to 48.89% for 2027.
- ▶ **Ontario trillium benefit** - This tax-free benefit payment, which includes the Northern Ontario energy credit, the Ontario energy and property tax credit, and the Ontario sales tax credit, is paid either monthly or as a single lump sum at the beginning of the benefit year when the amount payable for the benefit year does not exceed \$360. The budget proposes to increase this threshold from \$360 to \$500 beginning with the 2026-27 benefit year (1 July 2026 to 30 June 2027). This change only impacts the timing of the benefit payment and does not impact the total benefit amount to be received.

Harmonized sales tax (HST)

As announced ahead of budget day, Ontario will temporarily enhance the existing Ontario HST new housing rebate (NHR) and new residential rental property rebate (NRRPR) by removing the 8% provincial portion of the HST for qualifying new homes valued up to \$1 million. These two rebates currently provide a 75% rebate of the provincial portion of the HST, up to a maximum rebate of \$24,000 on purchases of a qualifying new or substantially renovated home.

The maximum enhanced provincial rebate will be \$80,000 for new homes valued at \$1 million or less, which would be retained for new homes valued up to \$1.5 million. The enhanced rebate will be phased out for homes with values exceeding \$1.5 million. However, a rebate of \$24,000 will remain available for new homes valued at or above \$1.85 million, in accordance with the current rules.

The enhanced rebates will be available for agreements of purchase and sale entered into on or after 1 April 2026 and on or before 31 March 2027. Construction of the home must begin on or before 31 December 2028 and must be substantially completed before 2032.

The new home must be used as a primary place of residence to qualify for the NHR or as a residential rental property for the NRRPR. An individual who qualifies for the proposed Ontario first-time home buyer (FTHB) HST rebate and who makes a purchase during the enhancement period noted above will be able to claim the same rebate amount as under the proposed enhancement.

Ontario is proposing to eliminate the existing provincial NHR and NRRPR after the enhancement period ends. The province will provide information on transitional provisions for the elimination of these rebates in its 2026 fall economic outlook and fiscal review. These measures would not affect the proposed Ontario FTHB HST rebate or the Ontario purpose-built rental housing rebate.

In its *2025 Ontario Economic Outlook and Fiscal Review* tabled on 6 November 2025, Ontario confirmed it will provide an FTHB rebate for the 8% provincial portion of the HST to first-time home buyers on qualifying new residences valued up to \$1 million, with the rebate phased out for new homes valued between \$1 million and \$1.5 million. Ontario initially indicated the rebate would be available for agreements of purchase and sale entered into on or after 27 May 2025 and before 2031, in accordance with criteria initially set by the federal government. Subsequent federal amendments were introduced to have the federal FTHB rebate apply to agreements of purchase and sale entered into on or after 20 March 2025. Ontario will align the effective period for the provincial rebate with the federal rebate.

It should be noted that changes to the Ontario HST rebates will require changes to the federal regulations.

Other tax measures

Insurance premium tax

The budget proposes to amend the *Corporations Tax Act* to allow all funded benefit plans to elect to be treated as unfunded benefit plans, effective 1 April 2026. This election will allow funded benefit plans to defer liability for insurance premium tax until benefits are paid out of the plan, instead of when contributions are paid into the plan.

Alcohol taxes

Ontario will consolidate taxes imposed under the *Liquor Tax Act, 1996* into single tax rates to simplify administration and provide tax relief. Specifically, Ontario will combine the basic, volume and environmental beer taxes into a single tax rate of:

- ▶ \$1.18 per litre for non-draft and \$0.90 per litre for draft beer made by a beer manufacturer; and
- ▶ \$0.46 per litre for non-draft and \$0.36 per litre for draft beer made by a microbrewer.

Ontario will adjust the small beer manufacturers' tax credit provided under the *Taxation Act, 2007* accordingly.

Ontario will also combine the basic, volume and environmental wine taxes into a single tax rate of:

- ▶ 0% on Ontario wines and wine coolers and 19.1% on non-Ontario wines and wine coolers in on-site winery retail stores; and
- ▶ 12% on owner wines and wine coolers sold in off-site winery retail stores.

The current spirits and spirits coolers categories will be replaced by three categories based on alcohol by volume (ABV). Ontario will also combine the basic, volume and environmental spirits taxes into single rates for each category, as indicated below:

ABV	Tax rate
7.1% or below	20%
Greater than 7.1% and not exceeding 18%	25%
Greater than 18%	30.75%

These changes will take effect on 1 April 2026 to align with the new LCBO wholesale mark-up pricing structure. Ontario will defer tax filing and reporting requirements from April to July 2026 to provide tax filers with time to update their tax administration systems. No interest or penalties will be charged as long as the April to July returns are filed by 20 August 2026.

Non-resident speculation tax

Ontario will amend the *Land Transfer Tax Act* to exclude First Nations individuals who are registered under the *Indian Act* (Canada) from the application of the non-resident speculation tax.

Tax Action Plan: update

As previously announced in the *2025 Ontario Economic Outlook and Fiscal Review*, Ontario is developing a multi-year Tax Action Plan with the stated aim of making the province “the most competitive jurisdiction in Canada.” The budget provides the following update on Ontario’s first steps in its Tax Action Plan:

- ▶ **Immediate expensing for certain assets** - Ontario will adopt the federal government’s temporary immediate expensing measures for the cost of manufacturing and processing (M&P) machinery and equipment, M&P buildings, greenhouse buildings, certain clean technology assets, zero-emission vehicles and productivity-enhancing assets, as well as the immediate expensing measures for capital expenditures for research and development.
- ▶ **Accelerated depreciation for certain assets** - The budget also proposes to adopt the federal government’s measures that temporarily allow accelerated depreciation for liquefied natural gas equipment and related buildings, accelerated depreciation from 4% to 10% for purpose-built rental housing, and accelerated first-year deductions of up to three times the regular amount for most other depreciable assets.

These measures, which will take effect following the passage of the corresponding federal legislation, will apply on the same dates as the corresponding federal measures.

Other first steps in the Tax Action Plan include the small-business corporate income tax rate reduction and temporary enhancement to the Ontario HST new housing rebate, both of which are summarized above.

Learn more

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