

## **Doane Grant Thornton**

### **Ontario made manufacturing investment tax credit: Does your business qualify?**

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[Ontario Budget 2025 \(ON Budget 2025\)](#) proposes temporary enhancements to the Ontario Made Manufacturing Investment Tax Credit (OMMITC), intended to further encourage investments and protect jobs in the manufacturing sector in Ontario. Eligible manufacturers in Ontario could receive up to \$3 million (up from \$2 million) per year for an associated group on certain purchases of manufacturing and processing property (M&P), if these changes are enacted. It's important to note that a corporation must meet several criteria to claim the OMITC and determining whether an expenditure qualifies can be complex. If you need assistance navigating these rules, we can help.

#### **Proposed amendments**

ON Budget 2025 proposes to enhance the OMITC by:

- increasing the rate to 15% (from 10%), and
- expanding the eligibility to include certain non-Canadian controlled private corporations (non-CCPCs), but only on a non-refundable basis (with a carry forward period of up to 10 taxation years for any unused non-refundable credits).

If enacted, the changes will be effective for qualifying M&P buildings, machinery, and equipment purchased and made available for use on or after May 15, 2025 and before January 1, 2030

The Ontario government also proposes that all or a portion of the OMITC must be repaid if the property is sold, no longer used for M&P use, or is removed from Ontario within five years of being acquired. This measure will apply to eligible M&P property affected by such actions on or after May 15, 2025. Lastly, ON Budget 2025 proposes that the OMITC expire effective January 1, 2030. The Ontario government is required to review the effectiveness of the OMITC every three years.

#### **The current OMITC rules**

##### **What corporations qualify?**

Only qualifying corporations that make eligible expenditures in eligible property qualify for the OMITC. Specifically, the corporation making the eligible purchase must:

- Be a CCPC throughout the tax year
- Carry on business through a permanent establishment in Ontario (i.e., a fixed place of business, such as an office, factory, or workshop)
- Not be exempt from tax

##### **What expenditures are eligible and when?**

Qualifying corporations that purchase eligible M&P property from third parties are generally eligible for the OMITC, provided they're not "excluded property". Specifically, the following M&P purchases are generally eligible:

- M&P machinery and equipment under Class 53 (or Class 43 after 2025) for capital cost allowance (CCA) purposes purchased on or after March 23, 2023, and available for use in the taxation year, provided the qualifying corporation is:
  - using the property in Ontario primarily in the manufacturing or processing of goods for sale; or
  - leasing the property in the ordinary course of carrying on business in Ontario to a lessee who can reasonably be expected to use it primarily for manufacturing or processing of goods for sale or lease.
- M&P buildings (or building additions) under Class 1 for CCA purposes, that are located in Ontario, provided:
  - the building is available for use by the qualifying corporation on or after March 23, 2023; and
  - a valid election to claim additional CCA on an eligible M&P building has been filed on time with the CRA for the property (under regulation 1101(5b.1) of the federal Income Tax Act).

It's important to note that for a building (or building addition) to qualify, 90% or more of the space (by square footage) must be used for M&P purposes and the property cannot have been used (or acquired for use) by anyone prior to March 19, 2007. In addition, the corporation must file the election by the deadline (six months after the tax year-end) or it will not be accepted by the CRA, as previously noted in a technical interpretation.

### **What's excluded property?**

M&P property wouldn't qualify for the OMMITC if the property is or was one of the following:

- Purchased from a non-arm's length party (at the time of the expenditure or when the contract was entered into)
- Owned any time previously by a non-arm's length party
- Held as a leasehold interest at any time previously by the qualifying corporation or an associated corporation
- Claimed previously by the qualifying corporation or an associated corporation under the OMMITC rules
- Purchased from a vendor with a right or option to acquire or lease all or part of the property, or the qualifying corporation grants another party a right or option to acquire it
- Class 2 to 12 property transferred to Class 1 under an election
- Leased to a lessee exempt from tax under section 149 of the Act (e.g., a registered charity or non-profit organization)

The legislation allows for the Ontario Ministry of Finance to prescribe additional situations where a property would be excluded from this tax credit.

### **How is the credit calculated?**

For a specific taxation year, the OMMITC is calculated as 10% of the lesser of:

- Total eligible expenditures
- \$20 million expenditure limit, which must be shared amongst an associated group and is prorated for short tax years.

Associated groups need to file an agreement designating the amount of the limit allocated to each corporation.

### **How do qualifying corporations file a claim?**

Schedule 572 Ontario Made Manufacturing Investment Tax Credit must be completed and filed as part of the corporation's T2 Corporation Income Tax Return for the applicable tax year to claim this credit, and to allocate the \$20 million between associated corporations.

### **Other considerations**

- This tax credit reduces the capital cost of the M&P property for CCA purposes.
- When land and M&P buildings are purchased together, only the cost of eligible buildings qualify so a reasonable allocation of the purchase price would be needed.
- There are measures to prevent the misuse of this credit such as:
  - Corporations would be deemed to be associated if it's reasonable to believe that one of the reasons for their separate existence is to access or increase the credit.
  - Amalgamated companies can't claim expenditures incurred by a predecessor that wasn't a qualifying corporation when the expenditures were incurred.

### **Takeaway**

The OMMITC offers eligible CCPCs a refundable credit up to \$2 million per year (shared among an associated group) on certain purchases of M&P property used in Ontario. Proposed changes will increase this limit to \$3 million and expand eligibility to qualifying non-CCPCs on a non-refundable basis, if enacted. Determining whether an expenditure qualifies can be challenging—If you need assistance navigating these rules, contact your local advisor or reach out to us [here](#).

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