



## In this issue:

Global Rewards Updates: Canada: Stock option deduction to remain.....	1
Global Rewards Updates: New Zealand: Proposal to introduce employer reporting and voluntary withholding on employee share plan benefits.....	2

---

## Global Rewards Updates: Canada: Stock option deduction to remain

### Overview

In our November 2015 Global Rewards Update, we discussed how Canada's new majority government had included in its election campaign a proposal to change the tax treatment of stock options. The amendments put forward at that time would have potentially impacted existing stock option plans operating in Canada. The proposal would have reduced tax benefits available to individuals earning in excess of CAD 200,000 per annum by capping the deduction employees can claim when exercising stock options in Canada.

[URL: http://tax.cmail19.com/t/r-i-sstruk-l-j/](http://tax.cmail19.com/t/r-i-sstruk-l-j/)

However, the 2016-2017 Federal Budget, tabled in the House of Commons on 22 March 2016, did not contain these proposals. Minister of Finance Bill Morneau confirmed that there is no current plan to proceed with the changes. As a result, the existing rules relating to stock options in Canada remain in force.

## Existing stock option rules

Under the Canadian Income Tax Act (the Act), when an employee exercises a stock option, a taxable benefit equal to the difference between the fair market value (FMV) of the share and the exercise price is included in the employee's taxable income for the relevant tax year. However, the Act permits the employee to claim a deduction equal to 50% of the taxable benefit where certain conditions are met (e.g. the share is of an ordinary class of shares and the acquisition price paid for the share is not at a discount to the FMV of the share when the options were granted).

Where an employee exercises stock options granted by a Canadian-controlled private corporation (CCPC), the timing of the taxable benefit and corresponding deduction are governed by a slightly modified regime under the Act. An alternative deduction is also provided for CCPC stock options that have been held for at least two years.

## Deloitte's view

The government's decision to maintain the current legislation on stock option deductions is welcome news. There is no further action to be taken by employers or employees previously thought to be impacted by these changes.

— Mark I. Miller (San Jose)  
Principal  
Deloitte Tax LLP  
mamiller@deloitte.com

Rive Rutke (Chicago)  
Director  
Deloitte Tax LLP  
rrutke@deloitte.com

Peter Simeonidis (New York)  
Principal  
Deloitte Tax LLP  
psimeonidis@deloitte.com

Sean Trotman (New York)  
Principal  
Deloitte Tax LLP  
strotman@deloitte.com

---

## Global Rewards Updates: New Zealand: Proposal to introduce employer reporting and voluntary withholding on employee share plan benefits

### Background

Under current legislation in New Zealand, there are no employer reporting or withholding obligations in relation to employee share plans. Participants are required to report share benefits and pay any tax arising through their annual tax return. However, all other taxes due in respect of an individual's employment income are collected through the Pay As You Earn ("PAYE") withholding regime.

New Zealand's Government is currently considering changing these rules by introducing employer reporting requirements and the option for employers to operate voluntary withholding. It is proposed that the new rules will take effect from 1 April 2017.

### Proposed changes

**Voluntary withholding:** A recent Bill, the Taxation (Transformation: First Phase Simplification and Other Measures) Bill ("the Bill"), proposes to introduce the option for employers to voluntarily operate tax withholding on share benefits received by employees. Withholding would apply at the tax point (e.g. at vesting for conditional share awards and exercise for stock options).

The Bill indicates that an employer's election to operate withholding can be withdrawn at any time and can also be made on an employee-by-employee basis.

**Reporting requirements:** The Bill also proposes to introduce mandatory reporting requirements for employers.

Employers will be required to disclose the taxable value of share benefits received by employees in their Employer Monthly Schedule, regardless of whether withholding is operated.

The following would be excluded from the proposed reporting requirements:

- Share benefits delivered under an employee share plan specifically approved by the Commissioner of Inland Revenue;
- Share benefits delivered to former employees (this includes terminated employees and mobile employees who are not in New Zealand at the tax point); and
- The sale of an award by an employee or associated person to a non-associated third party prior to vesting.

Employers will be required to report any relevant amounts to the Inland Revenue through their PAYE return in the month following the month in which the taxable event occurred.

## Impact

The proposed reforms will reduce compliance for employees, but increase disclosure requirements for employers. This will result in a greater flow of information to the Inland Revenue and increase transparency of employee share plans.

## Deloitte's view

Historically, some employers had operated tax withholding on employee share benefits in New Zealand. However, the Inland Revenue had previously clarified that this position was incorrect. The new proposal shows a shift away from that previous position.

The current consensus in the market on the new proposal is that operating tax withholding may not be worthwhile. Therefore, it is possible that many companies will continue with their current position of not operating withholding on share benefits.

The requirement to report taxable benefits is likely to increase compliance costs for employers. This may require systems development and additional compliance work, especially if an employer chooses not to operate withholding.

— Mark I. Miller (San Jose)  
Principal  
Deloitte Tax LLP  
mamiller@deloitte.com

Rive Rutke (Chicago)  
Director  
Deloitte Tax LLP  
rrutke@deloitte.com

Peter Simeonidis (New York)  
Principal  
Deloitte Tax LLP  
psimeonidis@deloitte.com

Sean Trotman (New York)  
Principal  
Deloitte Tax LLP  
strotman@deloitte.com

## About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more about our global network of member firms. Please see [www.deloitte.com/us/about](http://www.deloitte.com/us/about) for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.

© 2016. For information, contact Deloitte Touche Tohmatsu Limited.