



Global Reward Update

Canada – Delayed implementation of proposal to introduce an annual cap on beneficial stock options treatment

On 19 December 2019, the Canadian government announced that the proposed changes to the taxation of stock options would not come into force on 1 January 2020 as originally planned.

Background

For many years, stock options have attracted preferential tax treatment in Canada, provided certain conditions are met. Individuals have been able to claim a deduction equal to 50% of the option gain at exercise, effectively leading to stock options being taxed at a rate equal to one half of the normal personal tax rate (the same rate that is applicable to capital gains).

Following Budget 2016, the Canadian government committed to reviewing federal tax expenditures and the fairness of Canada's tax system, including stock option benefits.

Budget 2019 proposal

As previously communicated in our [April 2019](#) update, on 19 March 2019, the federal government announced its plan to limit the current 50% stock option deduction for high-income individuals employed at large, long-established, mature firms by introducing an annual CA\$200,000 cap on employee stock option deductions. This limit is intended to make the regime more equitable for Canadians, while ensuring that start-ups and emerging Canadian businesses that are creating jobs maintain the ability to use employee stock options as an effective tool to attract and reward employees, and to accelerate their growth in a tax-efficient manner.

Draft legislative proposals released June 2019

Further details were announced when the federal government released draft legislation on 17 June 2019. Highlights of the draft legislation are as follows:

- A CA\$200,000 annual cap on employee stock option grants that may receive tax-preferred treatment (applicable for each vesting year and based on fair market value of underlying shares at grant) is introduced;
- The new limit will not apply to stock options granted by Canadian-controlled private corporations (CCPCs) and some non-CCPCs, such as start-ups, emerging and scale-up companies that meet prescribed conditions; and
- Employers will be able to claim a corporate tax deduction for the non-qualifying options.

The federal government held a consultation period until 16 September 2019, during which comments were provided on the draft legislation in general and also specifically on the characteristics of companies that should be considered “start-up, emerging, or scale-up companies” for the purposes of determining the conditions that will be prescribed in the regulations.

Implementation delay

The June 2019 legislation was scheduled to come into force on 1 January 2020, and apply to stock options granted on or after that date. However, on 19 December 2019, the government announced that the proposed changes would be delayed.

The government indicated that it will provide details on how it intends to move forward with the stock option measures in the 2020 budget, which is expected to be tabled in Parliament during February or March. Further, the new coming-into-force date will

provide sufficient time for individuals and businesses to review and adjust to the new rules.

The ministry of finance of Quebec has stated that it is currently reviewing Quebec's stock option legislation and will announce its position at a later date. The Quebec legislation currently provides for a stock option deduction of 25% or 50% on qualifying options for Quebec taxpayers.

Deloitte's view

This announcement postponing the implementation of changes to the stock option regime comes as a relief to taxpayers, given the ambiguity around categorising certain companies as start-ups and emerging Canadian businesses. It will also be welcomed by employers, given the complexity of implementing processes to properly track stock option grants with different tax attributes over different vesting periods.

This delay indicates that the federal government is carefully reviewing the input received during the consultation period and wants to ensure that the amendments meet its key objectives. Our [comments on the draft legislative proposals](#) identify important technical and administrative issues that will need to be addressed and clarified.

If the proposals in the 2020 budget contain no material changes from the original proposals, the majority of employees receiving employee stock option benefits should be unaffected. However, companies should carefully consider the changes, i.e., whether future grants of stock options to executives and high-earning employees could be subject to the limitation on preferential treatment under the new rules. Alternatives to granting stock options to these individuals and a broader review of a company's executive compensation framework should be considered.

It is welcome news for employers that a corporate tax deduction will be available for any options not qualifying for the preferential income tax treatment.

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