



Global Rewards Update

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.

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.

Contacts

For assistance with these issues, or any other issue related to the operation of your global equity plans, please contact your usual Deloitte adviser or email us at globalshareplans@deloitte.co.uk, and an adviser will contact you.

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