

EMPLOYEE STOCK OPTIONS IN CANADA PART ONE



AT A GLANCE: WHAT IS TAXABLE AND WHEN?

There are no immediate tax implications for Canadian employees when the options are granted or when the options vest.



The employee will be subject to a taxable employment benefit equal to the difference between the share's fair market value (at the time the option is exercised) and the amount the employee pays to acquire the share (the exercise price).



Employees may be entitled to a tax deduction equal to 50% of the taxable employment benefit.¹



Provided that a Canadian employee is dealing at arm's length with a Canadian-controlled private corporation (CCPC) immediately after the stock options are granted to the employee, the taxable employment benefit is deferred automatically from the year that the employee exercises their options (and acquires the shares) to the year that the employee disposes of the shares.



LET'S USE AN EXAMPLE



The employee exercises their stock option, and acquires 100 common shares of the company, paying \$1 per share (or \$100 in total).

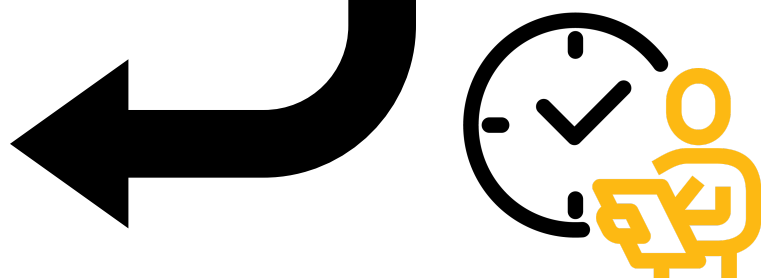
The fair market value of the share at the time the option is exercised is \$100 per share (or \$10,000 in total).

WHAT IS THE TAXABLE EMPLOYMENT BENEFIT ASSOCIATED WITH EXERCISING THE STOCK OPTION?

The employment benefit is determined at the time the stock option is exercised and the shares are issued to the employee. The employment benefit is calculated as the difference between the fair market value of the shares at the time the stock option is exercised and the amount the employee paid to acquire the shares.

Using our example, the employee benefit will be **\$9,900 [\$100 - \$1.00]** on the 100 shares issued.

WHEN WILL THE NET EMPLOYMENT BENEFIT BE TAXABLE TO THE EMPLOYEE?



When the company issuing a stock option is a CCPC, there is an automatic deferral of the employment benefit until the time that the employee disposes of the acquired shares.²

QUESTIONS?

¹Pursuant to ITA subsections 110(1)(d) and 110(1)(d.1).
²Provided the employee meets the arm's length condition discussed above.

For more information on the taxation of employee stock options in Canada, contact Ross Pasceri, Ali Spinner or another member of Crowe Soberman's Tax Group. Visit www.crowe.com/ca/crowesoberman to learn more.

Ross Pasceri, BComm, MTax, CPA, CA – Ross is a manager in the firm's Tax Group. He helps clients develop tax-efficient corporate reorganization plans (domestic and international), as well as helping clients with their tax compliance needs such as personal, corporate and trust/estate tax returns. Connect with Ross at ross.pasceri@crowesoberman.com or call 416 963 7114.

Alexandra (Ali) Spinner BA, MMPA, CPA, CA, TEP – Ali is a partner in the firm's Tax Group. She is involved in all aspects of the firm's domestic and international tax practices. She is also experienced in estate and trust planning, corporate structures, reorganization and tax planning. Connect with Ali at ali.spinner@crowesoberman.com or call 416 963 7129.

While this infographic provides general information, Crowe Soberman recommends that you speak with your tax advisor before taking specific tax planning steps.



Crowe Soberman | Canada