

## LAW &amp; POLICY GROUP

**GRIST**

## CANADA PROPOSES TAX CHANGES FOR EMPLOYEE STOCK OPTIONS

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[Proposed tax changes](#) for Canadian employee stock options from the Department of Finance are open to comment through 16 Sep 2019. The proposals in a Notice of Ways and Means Motion would set a CAD \$200,000 annual cap for certain employee stock options granted on or after 1 Jan 2020 that qualify for the 50% tax deduction. The motion aims to help smaller, growing companies take advantage of the preferred tax treatment that currently benefits mostly executives in large, mature companies. The changes would more closely align Canada's tax rules with the US tax treatment of stock options.

### HIGHLIGHTS OF PROPOSED TAX CHANGES

The proposals would amend the [Income Tax Act](#) to implement changes recommended in the [2019 Federal Budget](#). Highlights of the measures include:

- The CAD \$200,000 limit on deductions would generally apply to the value of all stock options vesting in any single calendar year. Options exceeding the cap would be treated as nonqualified options.
- The annual limit would be calculated on the aggregate fair market value of the shares when the options were granted. If the value of vesting stock options exceeds the annual limit, the first options granted would qualify for the deduction.
- Employers would have to notify employees in writing if granted stock options are subject to the annual cap and notify the taxation authority if options are within scope of the rules.
- Qualifying employers could be eligible for a corporate tax deduction even if an employee isn't entitled to a stock option deduction.
- Canadian-controlled private companies and certain "start-up, emerging and scale-up companies" would be exempt from the annual cap. Input on the applicable criteria is requested.

## RELATED RESOURCES

- [Press Release](#) (Canadian Department of Finance, 17 Jun 2019)
- [Notice of Ways and Means Motion To Amend the Income Tax Act](#) (Canadian Department of Finance, 17 Jun 2019)
- [Income Tax Act](#) (Government of Canada)
- [Federal Budget 2019](#) (Government of Canada)

*Note: Mercer is not engaged in the practice of law, accounting or medicine. Any commentary in this article does not constitute and is not a substitute for legal, tax or medical advice. Readers of this article should consult a legal, tax or medical expert for advice on those matters.*