GMS Flash Alert

Global Compensation Edition

2017-071 | April 19, 2017

Canada - Quebec Bumps Up Stock Option Deduction

Employees in Quebec can now benefit from claiming a stock option deduction of 50 percent for certain shares, under recent measures confirmed in Quebec's 2017 budget.[1] This increased deduction, which was previously only available at 25 percent, generally applies to stock options received for shares of public corporations with significant presence in Quebec that are granted after February 21, 2017. (All dollars expressed are Canadian dollars.)

WHY THIS MATTERS

As a result of this welcome change, which harmonizes with existing federal rules, employees in Quebec will benefit from the same stock option treatment currently available in other provinces. However, this new measure will affect the tax withholding rates and the reporting of stock option benefits. Because the change only applies to stock options granted after February 21, 2017, and shares of certain eligible corporations, individuals will need to properly exercise additional care in keeping separate records of their stock options, by dates and issuing corporation. Likewise, companies should arrange for separate monitoring of stock option grants, to align the tax withholdings and reporting.

Background

In its 2017 provincial budget on March 28, 2017, Quebec confirmed that it would harmonize its rules with the federal tax treatment of certain stock options that allow a 50-percent stock option deduction for certain shares. Previously, Quebec announced its harmonization plans in *Information Bulletin* 2017-3, dated February 21, 2017.

Generally, stock options granted to employees of public corporations give rise to taxation at the time the shares are acquired upon exercise of the stock option. The stock option benefit is treated as employment income equal to the difference between the fair market value of the shares at the date of exercise and the exercise price paid by the individual to acquire the shares.

If certain conditions are satisfied, only 50 percent of the stock option benefit is effectively included in income. This is the case for federal and provincial (except Quebec) tax purposes. Previously, for Quebec tax purposes, the inclusion rate of the stock option benefit is 75 percent. This results in higher taxation of stock option income for Quebec tax purposes than at the federal level.

For full details of the Quebec 2017 budget, see *TaxNewsFlash-Canada* 2017-14, "Highlights of the 2017-2018 Quebec Budget", a publication of the KPMG International member firm in Canada.

Tax Implications of New Measure

The new measure, which harmonizes the Quebec rules with the federal rules, increases the stock option deduction for Quebec income tax purposes to 50 percent (from 25 percent), provided the following conditions are met:

- The options relate to shares belonging to a class of shares listed on a recognized stock exchange.
- The option is granted to an employee of a corporation that is a qualified corporation at the time the stock option agreement is entered into or the shares are acquired. A "qualified corporation" is a corporation with a Quebec payroll of at least $10 million.

KPMG NOTE

Under the above conditions, a "recognized stock exchange" can be a Canadian or a foreign stock exchange. Specifically, Quebec clarifies in its *Information Bulletin* that the stock exchange must be designated as such by the Minister of Finance of Canada, or the stock exchange must be located in Canada or in a country that is a member of the Organization for Economic Co-operation and Development and that entered into a tax treaty with the government of Canada.

Whether a company is a qualified corporation is tested at the time the stock option is granted or at the time of exercise. Therefore, companies should continue to monitor their Quebec payrolls to foster proper tracking at these reference dates to establish qualification for the favourable tax treatment.

Please consult with your professional tax adviser to help with an assessment of the effect of the tax changes in this year's Quebec budget on your personal finances or business affairs.

FOOTNOTE:

1 For the March 27, 2017 press release on this matter from Revenu Québec, click here.

* * * * *

This article is excerpted, with permission, from "Quebec Bumps Up Stock Option Deduction" in *TaxNewsFlash-Canada* (April 3, 2017), a publication of the KPMG International member firm in Canada.

Contact us

For additional information or assistance, please contact your local GMS or People Services professional or the following professional with the KPMG International member firm in Canada:

Ana-Luiza Georgescu
Tel. +1-514-840-2538
algeorgescu@kpmg.ca

The information contained in this newsletter was submitted by the KPMG International member firm in Canada.

www.kpmg.com

kpmg.com/socialmedia

Flash Alert is a GMS publication of KPMG LLP's Washington National Tax practice. To view this publication or recent prior issues online, please click here. To learn more about our GMS practice, please visit us on the Internet: click here or go to http://www.kpmg.com.