



GMS Flash Alert

Global Compensation Edition

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Canada – New Stock Option Regime in Effect

Employers that offer employee stock option benefit plans should be aware of the changes that went into effect on July 1 to limit the Canadian preferential personal tax treatment of those options granted after June 30, 2021, for certain employees. These companies must apply a \$200,000 annual cap on the amount of employee stock options that continue to qualify for the stock option deduction under Canadian tax law. (All dollar figures expressed are Canadian dollars.)

These changes apply to stock options granted by employers that are corporations or mutual fund trusts, but do not apply to Canadian-controlled private corporations (CCPCs) or non-CCPCs with annual gross revenue in the most recent consolidated financial statements that does not exceed \$500 million.

The new rules apply to options granted on or after July 1, 2021 (subject to certain exceptions for qualifying options granted on or after July 1, 2021 that replace options granted before that date).

The new stock option deduction rules are included in the 2021 federal budget implementation bill (Bill C-30), which received Royal Assent on 29 June 2021 and is now law.¹ Finance had first proposed the stock option deduction cap in the 2019 federal budget,² and released additional details of this change in the 2020 Fall Economic Statement.

For the complete story, see "[New Stock Option Regime – Takes Effect July 1, 2021](#)" in *TaxNewsFlash-Canada* (2021-35, June 23, 2021), a publication of the KPMG International member firm in Canada.

WHY THIS MATTERS

Where these rules apply and an employee exercises an employee stock option that exceeds the \$200,000 limit, the employee is not entitled to the stock option deduction. Although these rules limit the availability of the stock option deduction for certain employees, employers may be entitled to a corporate tax deduction, if they meet certain conditions.

The new stock option deduction rules significantly alter the tax treatment of stock options. Specifically, these rules may considerably increase the personal tax burden of certain executives and provide a corporate tax deduction that has not previously been available.

KPMG NOTE

Actions to Consider

Affected companies should establish appropriate processes to track and distinguish between qualifying and non-qualifying options and to help ensure that deadlines for required notifications to the Canada Revenue Agency (CRA) and employees are met. While companies may want to designate additional stock options as non-qualifying to ease tracking requirements and provide for a corporate deduction, this should not be done without considering the increased personal tax burden on affected employees.

Companies may also want to consider any changes to their compensation plans going forward to maintain the maximum stock option deduction for employees under the new rules and to make sure that stock option agreements entered into on or after July 1, 2021, clearly state the vesting period of the options if they do not wish for the CRA's new deemed vesting period to apply.

FOOTNOTES:

- 1 See "[Canada: Tax measures in 2021 federal budget \(Bill C-30\) enacted](#)" (July 1, 2021), a publication of the KPMG International member firm in Canada.
- 2 For related coverage, see [GMS Flash Alert 2019-192](#), December 20, 2019.

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