# TAX TREATMENT OF RESTRICTED STOCK & RSUS

## CANADA

| | EMPLOYEE | EMPLOYER |
|---|---|---|
| **GRANT DATE** | Restricted stock: Taxed on grant. The taxable amount is the difference between the market value of the shares and the price the participant should pay (if any) at the date of grant.<br>Restricted stock units (RSUs): No tax consequences. | No tax consequences. |
| **VESTING DATE** | Restricted stock: No tax consequences.<br>RSUs: The taxable amount is the difference between the market value of the shares at vesting and the price the participant paid on award (if anything). | No tax consequences. |
| **WITHHOLDING & PAYMENT OF TAX** | The employee's income tax liability is subject to withholding when the taxable event occurs. | Where income tax is payable it must be withheld and remitted to the tax authorities with the regular tax payments. The remittance due dates for income tax withholdings will depend on the employer's remitter type. |
| **SOCIAL SECURITY** | The employee's liability for social security taxes is subject to withholding by the employer.<br><br>Social security is capped at a maximum annual income, so often so further social security will be due on share benefits. | Employee social security taxes must be withheld and must be remitted to the tax authorities together with the employer's social security taxes with the regular tax payments. The remittance due dates for social security taxes will depend on the employer's remitter type. |
| **REPORTING** | The employee must include details of taxable income and any gains or losses on disposition of the shares on their individual income tax return. | Details of the taxable employment benefits must be reported on the annual information return and copies of the year end payroll slips must also be provided to the employee. Reporting may also be required in the Health Tax and Worker's Compensation Annual Reports (where applicable). |

**For further information and to register for future updates contact:**

globalequity@bdo.com

**Defined terms used in this summary:**

**Restricted Stock** - Issued shares transferred to employees on the date of grant which are typically subject to restrictions on sale or forfeiture for example if performance targets are not met.

**Restricted Stock Units** – Awards where employees receive a right to acquire shares. Shares are only issued following vesting and attainment of performance targets, if applicable.

Information contained herein is intended to reflect present law and provides only a general outline of the subjects covered. Material discussed herein is meant for general informational purposes only and should not be relied on as professional advice. As such you should consult your own tax advisor regarding your specific tax matters.

This summary has been prepared on the basis that employees are resident Canada throughout the period from grant of stock awards until the shares are sold and that the employee is employed by a local employer in Canada, which is a subsidiary of an overseas parent. The potential tax consequences may vary greatly depending on your company's equity plan's design, administration, as well as many other factors.

Should you have a need for a trusted advisor in this area, please contact BDO's Global Equity team.

**This information is current as of August 2016.**

**www.bdo.global**

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|---|---|---|
| **SALE OF SHARES** | The employee will have a capital gain loss and 50% of this capital gain/loss is taxable. The gain/loss will be equal to the fair market value of the shares at the date of disposition less the market value of shares on exercise. The cost of the shares will be subject to cost averaging rules if the employee owns identical shares purchased at different dates, unless certain conditions are met. | No tax consequences. |
| **IS A CORPORATION TAX DEDUCTION AVAILABLE?** | Not available where shares are issued from Treasury. | |
| **EXCHANGE CONTROLS** | Not applicable. | |
| **“QUALIFYING” PLANS AVAILABLE?** | Not applicable. | |
| **INTERNATIONALLY MOBILE EMPLOYEES** | The above summary has been prepared on the basis that employees are resident in Canada throughout the period from the grant of the stock award until the shares are sold.<br>The rules for internationally mobile employees are complex and there are specific rules applicable to non-resident individuals. Generally, Canada will have the right to tax the gain if there is a link between the shares which the employee has received and the work of the employee performed in Canada. Canada broadly sources equity income based on the period between grant and vesting. It is highly recommended that advice is sought on an individual case by case basis. | |
| **OTHER POINTS FOR CONSIDERATION** | This summary is provided by BDO for informational purposes only to provide an outline of the general tax and social security position based on current tax law.<br>The employer may also be subject to other payroll taxes. These taxes vary by province and the due dates may vary.<br>There are also a number of legal and regulatory issues to consider on the implementation of any employee equity plan including, but not limited to, employee entitlement claims, exchange controls, securities restrictions, prospectus requirements and data protection regulations. We recommend that legal advice is obtained prior to the implementation of any employee equity plan. | |

**KEY ACTION POINTS**

- ✓ Employers are responsible for the withholding of tax and social security on the employee equity awards. Companies should review their systems to ensure that they are sufficiently robust to be able to capture, process and report Restricted Stock grants and RSU vests through the payroll.
- ✓ There are specific rules applicable for Internationally Mobile Employees holding equity in Canada. We recommend that companies review their systems to ensure that Internationally Mobile Employees moving in or out of Canada whilst holding equity can be identified to ensure correct compliance and identify any potential trailing liabilities.