TAX TREATMENT OF STOCK OPTIONS

CANADA

	EMPLOYEE	EMPLOYER
GRANT DATE	No tax consequences.	No tax consequences.
VESTING DATE	No tax consequences.	No tax consequences.
EXERCISE DATE	Income tax arises on the spread at exercise. Provided certain conditions are met, it may be possible to claim a deduction equal to 50% of the employment benefit.	No tax consequences.
WITHHOLDING & PAYMENT OF TAX	The employee's income tax liability on exercise is subject to withholding by the employer.	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. 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).
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.

For further information and to register for future updates contact:

globalequity@bdo.com

This summary has been prepared on the basis that employees are resident in Canada throughout the period from grant of stock options 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 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

HB008470

BDO

TAX TREATMENT OF STOCK OPTIONS

CANADA

IS A CORPORATION TAX DEDUCTION AVAILABLE?	Where shares are issued to an employee on the exercise of a stock option, no deduction is available to the corporation in respect of the issue of the shares. In cases where an employee disposes of their share option rights for a cash payment from their employer or some other in-kind benefit there are new rules where the employee can claim the deduction of 50% of the employment benefit if eligible or the employer can claim the cash-out as an expense, but not both.
"QUALIFYING" PLANS AVAILABLE?	Prior to March 5, 2010, employees of publicly-traded companies could elect to defer the recognition of the employment benefit for tax purposes until the disposition of the shares on up to a certain amount that vest in the employee each year. If the option is to purchase shares of a Canadian Controlled Private Corporation (CCPC), the taxation of the employment benefit is deferred until sale. In this case, withholdings are not required on exercise.
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 share option until the shares are sold. 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 option 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 by individual 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. The employer may also be subject to other payroll taxes. These taxes vary by province and the due dates may vary. 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 exercise of employee stock options. Companies should review their systems to ensure that they are sufficiently robust to be able to capture, process and report stock option exercises 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.
- ✓ The province of Québec has special rules with respect to the taxation of the stock option employment benefit.