



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

Cost Estimate of Election Campaign Proposal

Publication Date: September 2021

Short Title: Eliminating the deduction on employee stock options

Description: The tax deduction on all employee stock options will be eliminated and employee stock options will be treated as regular salary when exercised. The proposal will be effective for all stock options granted on or after September 21, 2021.

Cost of Proposed Measure:	\$ millions	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	Total
Total cost		-1	-6	-13	-28	-50	-99

Notes:

- Estimates are presented on an accrual basis as would appear in the budget and public accounts.
- A positive number implies a reduction in the budgetary balance (lower revenues or higher spending). A negative number implies an increase in the budgetary balance (higher revenues or lower spending).
- "-" = PBO does not expect a financial cost.

Estimation and projection method: The value and timing of exercised employee stock options under the proposal were projected. Employee stock options were treated as regular salary, subject to higher effective tax rates. They will also become deductible expenses for employers, resulting in partially offsetting reductions to corporate income tax revenue. A behavioural response was incorporated. PBO assumed that increases in after-tax corporate profits resulting from this proposal will be fully paid out in the form of higher salaries.

Source of Uncertainty: The main sources of uncertainty relate to the number of individuals who would claim the deduction and the timing when stock options would be exercised. There is also uncertainty surrounding the behavioural response.

Data Sources:	Variable	Source
	Number of claimants and average claim	Canada Revenue Agency
	Microdata on individuals' stock options	Capital IQ ¹
	Economic and demographic projections	PBO EPC baseline

© Office of the Parliamentary Budget Officer, Ottawa, Canada, 2021

¹ The statements, findings, results, conclusions, views and opinions contained and expressed herein are based in part on data obtained with the permission of S&P Global Market Intelligence (all rights reserved) and are not those of S&P Global Market Intelligence or any of its affiliates or subsidiaries.