

Cost Estimate of Election Campaign Proposal

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Short title: Eliminating the tax deduction for employee stock option

Description: Eliminating personal income tax deductions for employee stock options. Currently individuals are allowed to deduct from their income 50% of the gains from exercising their options under an employee stock option plan. This cost estimate includes an interaction with an increase in the personal income tax rate top bracket from 33% to 35%.

Operating line(s): Personal income tax

| Data sources: | <u>Variable</u> | <u>Source</u> |
|---------------|---|--|
| | Number of claims and average claim | Canada Revenue Agency (CRA) |
| | Number of years until exercising the option | Capital IQ ¹ |
| | Employment income growth; population growth | PBO Election Proposal Costing baseline |

Estimation and projection method: To calculate the cost of eliminating the tax deduction, historical data between 2006-2017 on the number of claimants and the average claim were used. Shares granted under an employee stock option plan prior to April 1, 2020 were assumed to be grandfathered.

Historical data between 2014 and 2018 from Capital IQ were used to model the schedule at which individuals exercise their options and acquire the shares. A triangular distribution was used to approximate this schedule, with most people exercising their option within 5 years, but some taking up to 10 years.

Wage growth and population growth from the PBO EPC baseline were used to project the average claim and the number of claimants.

Uncertainty assessment: The estimate has moderate uncertainty. Data from Capital IQ were used, but this database only reports stock options for top executives working in public firms. Therefore, this does not necessarily consist of a representative sample of the population receiving employee stock options. The estimate is sensitive to economic downturns and expansions, which are not modeled. No behavioral effect was considered.

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Cost of proposed measure

| \$ millions | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 | 2025-2026 | 2026-2027 | 2027-2028 | 2028-2029 |
|-------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Total cost | - | -46 | -140 | -283 | -439 | -583 | -712 | -828 | -927 | -1,009 |

Supplementary information

| | Description | Operating line | 2019- 2020 | 2020- 2021 | 2021- 2022 | 2022- 2023 | 2023- 2024 | 2024- 2025 | 2025- 2026 | 2026- 2027 | 2027- 2028 | 2028- 2029 |
|---------------------|--|---------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Cost | Cost with a 33% tax rate for the PIT top bracket | Personal income tax | - | -43 | -131 | -265 | -412 | -546 | -668 | -776 | -869 | -946 |
| Interaction effects | Interaction with an increased 35% tax rate for the PIT top bracket | Personal income tax | - | -3 | -9 | -18 | -27 | -36 | -45 | -52 | -58 | -63 |
| Total cost | | | - | -46 | -140 | -283 | -439 | -583 | -712 | -828 | -927 | -1,009 |

Notes:

Estimates are presented on an accruals basis as would appear in the budget and public accounts.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

"-" = PBO does not expect a financial cost.