Taxation of employee stock options

Many companies use stock options to attract or reward good employees as it gives the employees the opportunity to share in the future growth of a company. Stock options are an incentive that aligns the goals of the employees with the goals of the company as both benefit from an appreciation in the stock price. Stock options are also a popular form of compensation because they do not generally affect the company’s cash flow.

The taxation of employee stock options can be complex, as there are a number of factors that determine how and when an employee stock option will be taxed. The following article outlines the rules around the taxation of employee stock options and presents several common examples to help illustrate the rules.

Background

As an employee, you may have been granted stock options by your employer. Stock options give you the right to acquire shares of your employer corporation at a fixed price (the exercise price or strike price) on a future date.

Employers typically set vesting periods for options, meaning you must work at the company for a specified period of time before you can exercise the options. For example, your employer may grant you 1,000 options in Year 1, stipulating that you can exercise only 250 options annually in each of Year 2, Year 3, Year 4 and Year 5. Vesting periods are intended to give you incentive to stay at the company while still allowing you to benefit from the increase in the share price.

A key consideration in the taxation of employee stock options is the type of corporation issuing the stock option. There are many types of corporations in Canada, for example, public corporations, private corporations, and Canadian-controlled private corporations (CCPCs). However, the taxation of options depends only on whether the company issuing the shares is a CCPC or not.

A CCPC is generally a Canadian corporation, whose shares are not listed on a designated stock exchange. A corporation will not qualify as a CCPC if it is controlled by a public corporation, a non-resident, or a combination of both. A non-CCPC generally includes a public corporation, or a private corporation that does not meet the definition of a CCPC.
Non-CCPCs

Security options benefit

Generally, there are no tax implications when stock options are first granted to you. However, when you decide to exercise the options, the difference between the fair market value (FMV) of the shares on the day you exercise the options and the amount you pay for the shares (the exercise price or strike price) is considered to be a security options benefit.

The security options benefit is taxable to you as employment income in the year you exercise the options. Being employment income, it also qualifies as earned income for calculating your RRSP contribution room.

The security options benefit is normally added to the adjusted cost base (ACB) of your shares. This ensures that the security options benefit is not taxed again on a subsequent disposition. The ACB of your shares will therefore include the exercise price and the security options benefit, such that the ACB will generally be the FMV of the shares on the date you exercised the options.

Future appreciation or depreciation of the shares after the exercise date, if you hold the shares and do not sell them immediately after exercising the options, is taxed as a capital gain or loss.

Security options deduction

You may be eligible for an offsetting security options deduction equal to 50% of your security options benefit, if certain conditions are met. Generally speaking, the deduction is available if:

- The employee stock option is in respect of common shares;
- The exercise price was not less than the FMV of the shares at the time the options were granted; and
- You are dealing with your employer at arm’s length.

The deduction results in the security options benefit being effectively taxed at capital gains tax rates, even though the benefit is considered employment income. Since the income inclusion is not truly a capital gain, you cannot offset the income inclusion with capital losses.

Both the security options benefit and the security options deduction are reported on your T4 slip, along with your salary, bonus and other sources of employment income.

Quebec provincial tax

For Quebec provincial tax, the security options deduction is generally only 25%. However, you may be eligible for a security options deduction of 50% for stock options granted under an agreement concluded after February 21, 2017, provided the shares are publicly traded and the corporation is a “qualified corporation” at the time the stock option agreement is entered into or the shares are acquired. A “qualified corporation” is a corporation with a Quebec payroll of at least $10 million for that calendar year. Due to the two different deduction percentages in Quebec, it is important that you keep adequate records of when your stock options were granted and by which corporation.

An example for non-CCPC stock options

Charley was granted employee stock options to purchase 100 common shares of public XYZ Co. on January 15th of Year 1. The exercise price of the XYZ Co. options was $15 per share and the FMV of these shares when the options were granted was $14 per share. Charley exercised his options on December 3rd of Year 2, when the XYZ Co. shares were trading at $20 per share. One month later, on January 2nd of Year 3 the share price increased to $22 per share and Charley decided to sell all his shares at that time.
Employee stock options are taxed even more favourably if your employer company is a CCPC.

Charley has a $500 \([($20-$15) \times 100]\) security options benefit to include on his income tax return for Year 2. Charley is entitled to a 50% security options deduction of $250 since the employee stock options are in respect of common shares and the exercise price ($15) was greater than the FMV of the shares ($14) at the time the options were granted. Charley is simply an employee and has no significant ownership in, or influence over, XYZ Co., so Charley and XYZ Co. are dealing at arm's length. The net inclusion on Charley’s tax return for Year 2 will be $250 ($500-$250).

Charley will also have to report a capital gain of $200 \([($22 FMV-$20 ACB) \times 100]\) on his tax return for Year 3, half of which will be taxable.

**Deferral of non-CCPC security options benefits exercised on or before March 4, 2010**

You cannot defer the security options benefit on non-CCPC stock options exercised after March 4, 2010. However, if you exercised your non-CCPC stock options after February 27, 2000 but prior to 4 PM on March 4, 2010, it was possible for you to defer the taxation of the security options benefit, up to an annual limit, until you actually sold the shares or were deemed to dispose of the shares. You must have elected, in prescribed form, for the deferral to apply. The 50% security options deduction was also deferred until the security options benefit was taxable.

If you are still holding non-CCPC shares for which a deferral applies, you will need to include the security options benefit in income in the year you dispose of the shares or are deemed to dispose of them.

**CCPCs**

Employee stock options are taxed even more favourably if your employer company is a CCPC. There are two significant differences in the taxation of employee stock options of CCPC shares.

First, instead of realizing the security options benefit in the year you acquire the shares, the security options benefit is deferred until you dispose of the shares (or are deemed to have disposed of your shares).

Second, if you and your employer corporation were dealing at arm’s length immediately after the stock option agreement was entered into, the security options deduction is available even if the exercise price was below the FMV of the shares at the time the options were granted, provided you held the shares for at least two years after exercising the options. There is no two year holding requirement in the case of death.

However, if you did not hold the shares for at least two years, then you may still be eligible for the security options deduction if the exercise price was at least equal to the FMV of the shares at the time the options were granted.

If a CCPC grants stock options to you and then ceases to be a CCPC (i.e., becomes a public corporation) before you exercise your options, the CCPC rules would still apply. A deferral of the security options benefit and a 50% security options deduction will still be available, if all of the other relevant criteria to be eligible for the deduction are met, as previously discussed.

**An example for CCPC stock options**

On March 30th of Year 1, Verna was granted employee stock options that gave her the right to acquire 100 shares of Diamonds Inc. for $5 per share. Diamonds Inc. is a CCPC. The FMV of the shares at the time of grant was $6 per share. Due to favourable drilling results, the share price increased to $20 per share by June 15th of Year 2. Verna decided to exercise her options at that time and acquired 100
If you have been granted employee stock options but do not have the cash needed to pay for the shares upon exercise of the options, you can consider a cashless exercise of your options. A cashless exercise involves short selling the underlying shares as a means of acquiring the cash needed to exercise the options.

Diamonds Inc. shares. On July 25th of Year 4, the shares of Diamonds Inc. were valued at $50 per share and Verna decided to sell her shares.

Since Diamonds Inc. is a CCPC, there were no immediate tax consequences to Verna on exercising her options. Verna only realized a security options benefit of $1,500 ([$20−$5] x 100) when she disposed of the shares in Year 4. Further, because Verna was dealing at arms’ length with Diamonds Inc. and held her shares for more than two years (from June of Year 2 to July of Year 4), she is eligible for the 50% security options deduction of $750. After Verna exercises her options, the ACB of each share becomes the FMV at the time the option was exercised ($20). This ensures that Verna is not subject to double taxation. Verna then realizes a capital gain of $3,000 ([$50−$20] x 100) on the sale of the shares in Year 4.

In summary, on her tax return for Year 4, Verna will have an employment income inclusion of $1,500 and a corresponding deduction equal to half of the inclusion of $750. She will also recognize a capital gain in the amount of $3,000, half of which will be taxable.

Considerations upon exercising

Cash-out of stock options
Where your employer provides you with the option to receive cash instead of securities upon exercising your options, and you choose to receive the cash, either your employer can claim a deduction for the cash paid or you can claim the 50% security options deduction if eligible, but not both. If your employer chooses not to claim the cash-out as a deduction, they will need to file an election with the Canada Revenue Agency (CRA) to forgo the deduction. Your employer will need to provide you with written evidence of filing the election in order for you to claim the security options deduction.

A cash-out of your stock options should not be confused with a cashless exercise of your stock options, where you actually acquire the shares but then sell them immediately.

Cashless exercise of stock options
If you have been granted employee stock options but do not have the cash needed to pay for the shares upon exercise of the options, you can consider a cashless exercise of your options. A cashless exercise involves short selling the underlying shares as a means of acquiring the cash needed to exercise the options. Generally, short selling is a speculative practice that involves using a broker to sell shares that you do not own.

Using some of the funds raised from the short sale, you exercise your stock options. The broker receives the shares from your employer and uses them to cover the short sale. The broker then pays you the difference between the cash received from the short sale and the cash used to exercise your stock options.

The risk of a cashless exercise is that the price of the underlying shares may change from the time of the short sale to the time you receive the shares from your employer. The FMV of the shares on the date you give notice that you intend to do a cashless exercise is the value used to calculate your security options benefit and determine the ACB of your shares. If the value on the date you give notice is different from the value received on the short sale, then you will have a gain or loss.

For tax purposes, the CRA generally considers a gain or loss resulting from a short sale to be an income gain or loss (i.e., 100% taxable or deductible) and not a capital gain or loss (i.e., 50% taxable or deductible). However, there are circumstances in which the gains or losses from a short sale can be treated as a capital transaction. You should consult with...
If you exercise an option that is denominated in a foreign currency, such as U.S. dollars, the appropriate date to quantify the security options benefit is the exercise date.

Withholding tax on the security options benefit
Since you receive a security options benefit as part of your remuneration, the benefit is considered employment income. Therefore your employer is required to withhold and remit the appropriate source deductions to the CRA at the time you exercise your options (except in the case of a CCPC). Your employer will generally withhold on the security options benefit, net of the security options deduction, where applicable. Your employer is also required to withhold in the event you choose to do a cash-out or cashless exercise of your options.

There are different methods for funding the withholding tax requirements. For example:

- Your employee stock option plan may require that you remit sufficient funds to your employer to cover the withholding tax.
- Your employer may make extra withholdings from your regular salary or bonus.
- Your employer may pay the tax required on your behalf and require that you reimburse them.
- Your employer may require a broker to sell a certain number of the shares issued to you in order to fund the withholding requirement. There would need to be a liquid market for the shares to do this.

Foreign exchange
If you exercise an option that is denominated in a foreign currency, such as U.S. dollars, the appropriate date to quantify the security options benefit is the exercise date. You will need to convert both the FMV of the shares at the time you exercise the options and the amount you pay for the shares (the exercise price) into Canadian dollars using the exchange rate on the date you exercised the options.

Contributions to your registered plans

Contribution of stock options to your TFSA
You can contribute stock options to your TFSA, as long as the underlying securities are qualified investments for TFSA purposes. The options must be contributed at its FMV (resulting in a capital gain assuming you did not pay to acquire the options) and the contribution is subject to your unused TFSA contribution room. As such, you will have to determine the FMV of the options contributed.

The CRA used to view the intrinsic value of an option (that is, the amount by which the current market price of the share exceeds the exercise price) as reflective of the option's FMV but has since changed their view. Where an option is “out of the money” and the exercise price to acquire the share is actually greater than the share's FMV, the intrinsic value of the option suggests no value, or even a negative value. However, the option may still have a value. It is the CRA's current view that instead of using the intrinsic value, “a valuation method appropriate in the circumstances” should be used to determine the FMV of an option.

Although you do not have a security options benefit at the time you contribute the options to your TFSA, you do have a security options benefit at the time you exercise the options in your TFSA (for both non-CCPC shares and CCPC shares). You may claim the 50% security options deduction, if all the relevant conditions are met. If the options expire in your TFSA, you will not have a security options benefit.
While the income tax legislation lists the types of qualified investments for a TFSA, financial institutions issuing TFSA can have internal policies which limit the type of qualified investments that can be held in the TFSA as they issue. If you are considering contributing employee stock options to your TFSA, check with your financial institution to see if they have any additional restrictions.

**Contribution of stock options to your RRSP**

You can also contribute stock options to your RRSP, as long as the underlying securities are qualified investments for RRSP purposes. The amount of the contribution is the FMV of the options at the time of contribution (resulting in a capital gain assuming you did not pay to acquire the option) and is subject to your unused RRSP contribution room. However, the main issue with contributing stock options to your RRSP is the potential for double taxation. You have an income inclusion when the options are exercised inside your RRSP (for both non-CCPC shares and CCPC shares). In addition, when you ultimately withdraw the funds from your RRSP, the full amount of the withdrawal is taxable to you at your marginal tax rate. You are essentially double taxed on the amount of the security options benefit. If you qualify for the security options deduction you may claim it at the time you exercise your options.

Another problem may arise when you exercise the stock options within your RRSP, since employers are required to withhold tax at the time of exercise. Some of your shares issued on the exercise of your stock options may have to be sold to cover the withholding tax. This would result in an income inclusion for you, taxable at your marginal tax rate. The transaction is treated as if you withdrew the amount from your RRSP to pay the tax liability arising on the exercise of the stock options held in your RRSP. To avoid this issue, it may be possible for your employer to satisfy the withholding requirements using another method, for example, by making extra withholdings from your regular salary or bonus.

Although it is generally not advisable to contribute your employee stock options to your RRSP, if you are considering it, it is important to discuss with your employer how they intend to satisfy the future withholding tax requirements. It is also important to discuss with a qualified tax advisor whether it makes sense for you from a planning perspective. Lastly, be sure to check with your financial institution whether they have any additional restrictions with respect to contributing employee stock options to your RRSP.

**The disposition of your shares**

When you dispose of your shares acquired under a stock option agreement, this triggers tax implications and you have to consider various rules, which are discussed below. Although a disposition can occur when you sell your shares on the market, it can also occur when you transfer your shares to a registered plan, to most trusts, or to another individual, including your spouse. If you transfer your shares to a corporation, even if you do so on a rollover basis, it may also be considered a disposition for tax purposes. Besides the actual disposition of your shares, there are situations where you might be deemed to have disposed of your shares, including on death and on becoming a non-resident.

**The ACB rules**

In the year you dispose of your stock option shares, you will need to calculate and report the capital gain or loss, which will be based on the proceeds you receive less the ACB of your shares. Several rules apply when determining the ACB of your stock...
When you exercise stock options to acquire shares but you already own other shares of your employer company, the ACB of all identical shares will generally have to be averaged amongst all the shares that you own.

Option shares. For example, we know that when you exercise the stock options, the security options benefit is normally added to the ACB of your newly-acquired shares so that the ACB will generally be the FMV of the shares at the time of exercise.

There is another general averaging rule that states that shares of the same class of capital stock are considered identical properties, and the ACB of identical properties needs to be averaged amongst all the identical properties you hold at that time. So, when you exercise stock options to acquire shares but you already own other shares of your employer company, the ACB of all identical shares will generally have to be averaged amongst all the shares that you own.

However, the normal ACB averaging rule does not apply to securities acquired after February 27, 2000 under a stock option agreement where:

1) the security options benefit is deferred (in the case of CCPC shares or pre-March 4, 2010 non-CCPC shares subject to a deferral); or

2) the shares acquired are designated and disposed of within 30 days of acquiring them, provided you do not acquire or dispose of any other identical shares during this period.

Instead, each of these securities has their own ACB and you do not need to average the ACB of these shares with any other identical shares held.

The order of disposition rules
When you sell your shares acquired under a stock option agreement, there are rules which determine the order of disposition. The rules make a distinction between securities for which you have deferred the security options benefit (“deferral securities”) and those for which you have not (“non-deferral securities”). Note that for these rules, the deferral securities only relate to CCPC shares for which you have deferred the security options benefit and do not include non-CCPC shares, even if you have deferred the security options benefit upon acquiring them (on or before March 4, 2010).

First, if you have securities which are considered identical properties, you are deemed to dispose of them in the order in which you acquired them (first in first out). For this purpose, you are deemed to have acquired non-deferral securities before deferral securities. This allows you to continue deferring the security options benefit where you have not disposed of all your securities. Where you acquire identical deferral securities at the same time, you are considered to have acquired them in the order in which the options were granted.

An example on the disposition of your shares
Frank worked for GRT Inc. (a CCPC), and as part of his compensation package, he was granted two employee stock options. The first employee stock option was granted...
on September 1st of Year 1 and the other on December 1st of Year 1, both with an exercise price of $10 and a vesting period of 2 years.

On September 15th of Year 3, Frank was able to exercise his first employee stock option (granted on September 1st of Year 1) and acquired one share of GRT Inc. The FMV of the share was $20 which then became the share’s ACB. Frank deferred the security options benefit of $10 ($20-$10). Since Frank deferred the benefit, the ACB of this share is excluded from the cost averaging rule and the share is not deemed to be identical to any other share he might own in the future. The ACB of this share remained at $20.

On December 15th of Year 3, Frank exercised his second employee stock option (granted on December 1st of Year 1) and acquired one additional share of GRT Inc. The FMV of the share was $30. Frank again deferred the security options benefit of $20 ($30-$10). Since Frank deferred the benefit, the ACB of this share is excluded from the cost averaging rule and the share is not deemed to be identical to any other share he owns. The ACB of this share remained at $30.

On March 1st of Year 4, GRT Inc. went public. Frank thought GRT Inc. was an excellent company to work for and wanted to benefit from the future growth of the company. So on March 1st of Year 4, he purchased 10 shares of GRT Inc. on the exchange for $40 per share. The next month, on April 1st of Year 4, Frank purchased 10 additional shares of GRT Inc. on the exchange for $50 per share. Since these 20 shares are considered identical properties for the ACB averaging rule, the ACB of all these shares will need to be averaged so that the average cost per share is $45 ([(10 shares x $40) + (10 shares x $50)]/20 shares).

Frank now had three groups of shares (and owned a total of 22 shares):

1) One deferral share acquired in September of Year 3 with an ACB of $20 and a deferred security options benefit of $10;

2) One deferral share acquired in December of Year 3 with an ACB of $30 and a deferred security options benefit of $20; and

3) 20 non-deferral shares acquired in March and April of Year 4 with an ACB of $45 per share.

On January 1st of Year 5, Frank sold 20 shares of GRT Inc. for $115 a share. Since Frank holds some deferral securities and some non-deferral securities, he is considered to first dispose of his non-deferral securities. Frank realized a capital gain of $1,400 [($115-$45) x 20 shares] on the disposition of his non-deferral shares.

On February 1st of Year 5, Frank decides to sell one more share of GRT Inc. for $120. Since Frank is deemed to dispose of the remaining two securities in the order in which he acquired them, Frank realized a capital gain of $110 [$120-$10] on his deferral share acquired in September of Year 3. In addition, since Frank disposed of one of his deferral shares, he also has to recognize the deferred security options benefit of $10 in his income for that year (less the security options deduction of $5, if applicable).

Frank continues to hold the remaining GRT Inc. share with the intention of selling it at the end of Year 5.

**Non-Residents**

When you cease Canadian residency, you are generally deemed to dispose of certain non-registered assets on the date you officially become a non-resident of Canada for tax purposes. An exception to this rule exists for employee stock options. If you own employee stock options and subsequently become a non-resident...
If you have already exercised your options and cease Canadian residency while holding shares, you will be deemed to have disposed of the shares, resulting in a capital gain or loss.

Holding unexercised options
If you exercise these employee stock options as a non-resident, you will be taxable in Canada on the security options benefit in the year you exercise the options. If you were granted the stock options for CCPC shares, then you can defer the security options benefit until you actually dispose of the shares. You may be able to claim the security options deductions in the year you recognize the benefit, if all the relevant criteria were met.

Even if you are a non-resident, you are taxable in Canada on the security options benefit because your employment for which the stock options were granted was performed in Canada. You will have to file a Canadian tax return to report the security options benefit as employment income and pay the taxes owing. Certain tax treaties between Canada and your current country of residence may allow for the security options benefit not to be taxed in Canada, so you should confirm your specific tax implications with a qualified cross-border tax professional.

Holding shares
If you have already exercised your options and cease Canadian residency while holding shares, you will be deemed to have disposed of the shares, resulting in a capital gain or loss. In the case of CCPC shares, you can still defer the security options benefit until you actually dispose of your CCPC shares. Note that this is not the case for options exercised on or before March 4, 2010 for non-CCPC shares. If you were able to defer the security options benefit at the time of exercise under the rules that existed prior to March 4, 2010 for non-CCPC shares, then you will have a security options benefit at the time you become a non-resident.

Since the departure tax rules are complex, you should consult with a qualified cross-border tax professional if you are considering moving from Canada to another country.

Alternative minimum tax (AMT)
If you have claimed a security options deduction, you may be subject to AMT. AMT is an alternative method used to calculate your taxes owing and is the federal government’s attempt to limit the tax advantage you can receive from claiming certain tax deductions. The security options deduction is one of those deductions, so you should always consider AMT when claiming a security options deduction. A qualified tax advisor can assist you with this analysis.

Donation of employee stock option shares
Assuming you qualify for the 50% security options deduction, you may receive an additional deduction, if you donate your publicly listed stock option shares to a qualified donee. A qualified donee is an organization that can issue official donation receipts for the gifts it receives. Typically, a qualified donee includes a registered charity which can be a charitable organization, a public foundation or a private foundation.

In order to qualify for the additional deduction, you will need to donate the shares acquired on the exercise of your options in the same year you exercise the options and within 30 days of exercising the options. If you exercise your stock options in December, you will not have the full 30 days to make the donation as you must donate the shares before December 31st.

The amount of the additional deduction is generally equal to 50% of your security options benefit, effectively eliminating the tax on your security options benefit. If you live in
Quebec, on your Quebec provincial income tax return you will receive the additional 50% deduction on top of your regular security options deduction, which may be 25% or 50%.

If the shares decline in value so that the FMV of the shares at the time you donate them in-kind is less than the FMV of the shares at the time you exercised the options, your additional deduction is reduced proportionately. In other words, your additional deduction will be less than 50% of your security options benefit.

In addition to eliminating or reducing your security options benefit, you will also receive a donation tax receipt equal to the FMV of the shares you donate. This allows you to claim a donation tax credit which can be used to reduce the taxes payable on your other sources of taxable income.

In a cashless exercise, if you direct the broker to immediately donate all or a portion of the proceeds to a qualified donee, you will still be eligible for a portion of the additional deduction. The deduction is prorated to reflect the proportion of the proceeds that you instruct the broker to donate.

For a more detailed discussion of the advantages of gifting public company shares to a qualified donee, please ask an RBC advisor for our article on the donation of shares acquired on the exercise of employee stock options.

**Taxation of employee stock options on death**

**Holding shares**

If you die holding shares acquired under an employee stock option agreement where the security options benefit has been deferred, you will be deemed to have disposed of your shares. Your legal representative will have to include the previously deferred security options benefit on your terminal tax return. If the conditions are met for claiming the security options deduction, then your legal representative will be able to claim the 50% security options deduction on your terminal return. For CCPC shares, if you die before the two-year holding period, the 50% security options deduction may still be claimed on your terminal return.

**Holding unexercised options**

If you have unexercised stock options at the time of death, you will be deemed to have a security options benefit in the year of death.

Where the terms of the stock option plan provide that the options are automatically cancelled upon death, the value of the options immediately after death will be nil, resulting in no security options benefit being included on your terminal return. In the case where your stock options do not vest prior to your death, you would not own the options prior to your death and, again, you would not have a security options benefit on your terminal return.

Sometimes the terms of the stock option plan provide that the options may be exercised for a limited time period after your death. If the stock options are exercised within the first taxation year of your graduated rate estate (GRE), by your GRE, a person who is a beneficiary of your GRE, or a person in whom the rights under the stock option agreement have vested, then the legal representative of your estate may claim the 50% security options deductions on your final return, if all the other relevant criteria are met.

In the case where your options are exercised and cash is received instead of shares (a cash-out), then your legal representative can claim the 50% security options deduction on your final return, provided your employer
Stock options to acquire shares of U.S. corporations are considered U.S. situs assets. The value of these options would be included in determining whether you are subject to U.S. estate tax and the amount of U.S. estate tax you have to pay.

files a prescribed election with the CRA to forgo the deduction and provides evidence in writing of the election to your GRE.

If, within the first taxation year of your GRE, your options are exercised, disposed of, or expire, and the value of the options have declined since your death, the value realized by your GRE may be less than the security options benefit deemed to be realized on your terminal return. In this case, if the legal representative administering your GRE elects in a prescribed manner, an amount that is deemed to be an employment loss can be carried back to your terminal return to reduce the security options benefit original reported.

**U.S. estate tax considerations**

Stock options to acquire shares of U.S. corporations are considered U.S. situs assets. The value of these options would be included in determining whether you are subject to U.S. estate tax and the amount of U.S. estate tax you have to pay. Of course, if you are a U.S. person and the value of your worldwide assets is above the estate tax thresholds, then you would be subject to U.S. estate tax regardless of whether your assets are U.S. situs or not.

Tax implications on death can be very complex and, in such situations, your legal representative should consult with a qualified professional tax advisor.

**Conclusion**

For many years, companies have been offering employee stock options to their employees as part of their compensation plan. Stock options offer you, as an employee, an opportunity to have ownership in the company you work for and feel more connected to the business. They can be part of your long-term financial strategy allowing you to reap the rewards of a successful business in the form of dividend income or capital appreciation. Alternatively, they can provide you with additional compensation from employment, which is taxed more favourably than a salary or bonus. There are many possible tax advantages to receiving employee stock options, but due to the complexity of the tax rules, it is always recommended that you consult with a qualified professional tax advisor about the tax implications to you.

*This article may contain several strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax, or insurance advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax, legal, and/or insurance advisor before acting on any of the information in this article.*
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