MNP

Stock Options | Example 1:

- **Henry** is an executive of a corporation that is subject to the new employee stock option tax rules. In 2020, Henry's employer grants him stock options to acquire 200,000 shares at a price of $50 per share (the fair market value of a share on the date the options are granted), with one-quarter of the options vesting in each of 2021, 2022, 2023 and 2024
- The FV of the stock option on grant exceeds the $200,000 limit (50,000 shares @ $50 = $2.5M)
- Of the 50,000 shares only 4,000 shares ($200,000/$50 = 4,000) qualify for the favourable treatment
- Henry exercises all of these options in 2024, by which time the price of the shares has increased to $70
- $3,680,000 (184,000 shares x $20) taxable benefit will be fully taxable to Henry, with a deduction for the corporation

Stock Options | Example 2:

- **Tobias** is an employee of a corporation that is subject to the new employee stock option tax rules. In 2021, his employer grants him employee stock options to acquire 120,000 shares at a strike price of $4 per share, the fair market value of a share on the date the options are granted. All of the options are identical and vest in 2022
- 50,000 ($200,000 ÷ $4 = 50,000) of the options will qualify for preferential personal income tax treatment (with no deduction to the employer), while the remaining 70,000 options will need to be granted under the new tax rules
- If Tobias exercises 20,000 options in 2022, all of these options will be considered to qualify for preferential personal income tax treatment because of the ordering rule for identical stock options
- If Tobias exercises an additional 40,000 options later in 2022, 30,000 of those options will qualify for preferential personal income tax treatment and 10,000 will be subject to the new rules