

Cost Estimate of Election Campaign Proposal

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Short title: Eliminating income tax deductions for employee stock options

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.

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 completely 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 January 1st, 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	-6	-43	-131	-265	-412	-546	-668	-776	-869	-946

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