

Stock Options

Outrageous Corporate Freebies

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Tax loopholes cost Canada at least **ten billion dollars** every year.

Most loopholes are tax code deductions that were created to stimulate investment, reward risk or support public policy initiatives. But those loopholes have been an unwieldy failure.

Only a small percentage of Canadians play the loophole game on their tax return. It is a game that generously rewards those who can afford to play and penalizes the rest of us.

- The stock option loophole is one of the best examples. Imagine not having to pay tax on half your income. In most of Canada, the profit from cashing in stock options is deemed a capital gain and taxed at half the rate of ordinary income.
- Quebec applies the standard provincial income tax to stock option compensation.
- This tool was originally designed to raise money for start-ups or expansion. But some of Canada's

wealthiest companies love using them. Stock options account for nearly 25 per cent of CEO compensation at Canada's top 60 publicly-traded companies.

- Every year, the stock option loophole drains a staggering **one billion dollars** from federal and provincial budgets.

*A **stock option** provides the right to buy stock of a corporation in a stated period of time at a specified price.*

Many companies tie their CEOs salaries to options as an incentive to drive the price of the stock up. A CEO will usually buy and sell on the same day – when the price of the stock is high. The difference between the original price and the market price is considered income. Since 1984, half of that income is tax-free.

Who Profits?



ScotiaBank CEO Rick Waugh

Since 2009 he has cashed in \$27.8 million in options. Current tax rules gave him **\$14 million tax-free**.



RBC CEO Gordon Nixon

Over the past four years, Royal Bank of Canada CEO Gordon Nixon has cashed in \$26-million in options profits **\$13 million tax free**.



TD Bank CEO Ed Clark

TD Bank CEO Ed Clark has collected \$58.9-million in options since 2009; he also holds another **\$43.6-million** in options he hasn't cashed in.



Potash CEO William Doyle

Potash Corporation's William Doyle could realize **\$100 million tax free** with his current portfolio of stock options.



Valeant CEO Michael Pearson

Pharmaceutical CEO Michael Pearson isn't far behind with a potential **\$90 million tax free**.



Enbridge CEO Al Monaco

The CEO of Enbridge can look forward to nearly **\$50 million tax free** if he cashes in his current stock options.

But this privileged tax deduction is also used by Canadian politicians.

For instance, a financial snapshot of former Prime Minister Brian Mulroney shows that he earned **\$3.5 million in stock options in three years**. Interestingly he became Prime Minister in 1984, the *same year* that this special deduction was introduced.

And a recent report by the Globe & Mail found that **nine Conservative and Liberal senators are eligible for stock options** from side jobs sitting on the boards of publicly traded companies:



END THE STOCK OPTION LOOPHOLE

As the old saying goes: “A buck is a buck”.

But in Canada there is a different set of rules for corporate insiders.

Chances are you pay tax on every loonie you earn, whether you are a personal care worker, retail clerk, teacher, or nurse – like 18 million other Canadians. We all pay our share to fund schools, build roads, maintain food safety, and keep our country safe and stable.

Stability, safety and infrastructure is an invaluable asset to business in Canada. So why should their CEOs get an obscene tax break on what is already one of the lightest federal tax rates in the G7 and Australia?

Canadians for Tax Fairness believes that the stock option loophole needs to be removed from Canada’s tax system. Now. Not only are stock options a free ride for ultra-wealthy Canadians, they encourage CEOs to engage in short term and risky speculation to drive up the value of their company’s stock.

But don’t just take our word for it. **Here’s what other have to say:**

“Stock options are complex, susceptible to manipulation and have the effect of excessively rewarding executives on the basis of a single and questionable performance metric.”

NEI Investments of Toronto

“Governments should eliminate all tax benefits (personal and corporate) which favor stock options as a means of compensation.”

Institute for Governance of Private and Public Organizations

“It reinforces the view that the rules of the game are rigged and that no matter what these guys do, they always come out ahead.”

Sarah Anderson, Institute for Policy Studies, Washington

“Far from being a far-fetched, leftist proposal, the elimination of stock options is happening gradually as boards of directors come to terms with the severe limitations of that form of compensation.”

Yvan Allaire, emeritus professor of Strategy, UQAM

“Making this simple change to our tax system would ensure that wealthy Canadians are paying their fair share and make a significant dent in the government’s efforts to balance the budget and restore fairness and progressivity to our tax system.”

Prof. Lindsay Tedds, University of Victoria

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