

# 2024 Federal Budget: Selected Pensions, Benefits And Executive Compensation Measures



On April 16, 2024, the federal government tabled its [2024 budget](#) (2024 Budget), which included a number of provisions related to pensions, benefits and executive compensation.

Here is an overview of such key provisions in the 2024 Budget and the accompanying Supplementary Tax Measures, which are discussed in further detail below:

- Employee Stock Option Deduction
- Working Group on Catalyzing Greater Domestic Investment Opportunities for Canadian Pension Funds
- Disclosure of Pension Fund Investments
- Amending the Home Buyers' Plan
- Possible Changes to the Qualified Investments for Registered Plans
- Previously Announced Measures

## **Employee Stock Option Deduction**

### **Budget Proposal**

The 2024 Budget proposes changes to the capital gains inclusion rate, which will lead to consequential changes to the 50% employee stock option deduction under the *Income Tax Act* (Canada) (ITA).

Capital gains are currently subject to tax at a 50% inclusion rate (one-half). For individuals, the 2024 Budget proposes to increase the capital gains inclusion rate to 66.66% (two-thirds) on the portion of capital gains realized in the year that exceed C\$250,000. The increased capital gains rate is proposed to apply to capital gains realized on or after June 25, 2024. For a more in-depth discussion of the capital gains inclusion rate proposal, see our April 2024 [Blakes Bulletin 2024 Federal Budget: Selected Tax Measures](#).

With respect to stock options, where an employee acquires shares on the exercise of an option to which section 7 of the ITA applies and certain other conditions are met, the employee is currently able to claim a 50% tax deduction on the amount of the stock option benefit. This means that the amount that would otherwise be included in

the employee's taxable employment income will be reduced by 50%, which effectively applies a capital gains tax inclusion rate to the stock option benefit. In light of the proposed increased capital gains inclusion rate, for options that are eligible for the 50% deduction, the Budget proposes to reduce such deduction to 33.33% for any option benefit exceeding C\$250,000 in any given year (aggregated with any capital gains realized in that year). An option that does not qualify for the 50% deduction for other reasons will not be affected by these new rules.

It is unclear at this stage whether these new rules will only apply to options granted after the new rules come into effect, which is currently scheduled to occur on June 25, 2024, or to all options exercised after such date, irrespective of when the applicable option was granted.

### **Future Impact and Potential Practical Issues**

The proposed new limits on the availability of the 50% employee stock option deduction will apply in addition to the existing restrictions applicable to stock options granted after June 30, 2021. For those options (subject to the exceptions described below), the 50% tax deduction may be limited based on the aggregate fair market value (FMV) of the underlying shares that are scheduled to vest in a particular year, as determined on the date of grant. The 50% deduction is available only in respect of the first C\$200,000 of shares, based on grant date value, underlying an option that can vest in a given year – any share underlying the option that can vest in a vesting year and which value exceeds such vesting limit will not be eligible for the 50% tax deduction on exercise (and be a “non-qualified security” for purposes of section 110(1.31) of the ITA). This restriction currently does not apply to options granted by Canadian-controlled private corporations (CCPCs) and non-CCPCs that have annual gross revenues of no more than C\$500 million (either alone or together with a group that prepares consolidated financial statements).

There is no indication in the 2024 Budget that the rules introduced in 2021 will be amended in light of the new restrictions. This means that for options granted after June 30, 2021, unless one of the above-described exceptions applies, there will be a two-fold test regarding the availability of the 50% tax deduction – one on the date of grant based on the C\$200,000 annual vesting limit and the other on the date that the option is exercised or otherwise settled based on the C\$250,000 annual combined capital gains and option benefit limit. If the C\$250,000 annual limit is exceeded, options that satisfy the first test and are deduction-eligible will only be subject to a 33.33% deduction. It is important to note that these two tests rely on distinct methods of valuing the options and are not interchangeable. The “non-qualified security” test is based on the value of the shares underlying the option at the time of grant, whereas the option benefit is determined on the basis of the difference between the FMV of the underlying share at the time of exercise and the exercise price.

There may be some practical issues in connection with these new rules that the 2024 Budget does not discuss and where we need to await the draft legislation to assess the full impact of the 2024 Budget proposal. For example:

- As described above, the C\$250,000 limit is an aggregate limit that combines option benefits and capital gains realized in the same year. For tax withholding and remittance purposes, it is currently unclear how the employer will be able to ensure that it withholds and remits the correct amount of tax on the option benefit where the employee may have already, or will in the later part of the year, realize capital gains that would reduce the value of the option benefit eligible for the 50% deduction. One possible approach may be that employee option holders will be required on exercise of the option to certify to the

employer that they still have sufficient “room” in their C\$250,000 annual option benefit limit, which the employer can then rely on to determine the correct tax withholding at that time.

- A similar issue may arise where an individual has been granted options by multiple employers and in a calendar year exercises options granted by two or more employers such that the aggregate value of the option benefit exceeds C\$250,000. Should each employer apply the threshold independently, the option recipient may have less tax withheld than if the withholdings were calculated on the basis of the aggregate option benefit, and have tax owing as a consequence.
- Employers will also need to be aware of capital gains realized in a year by employees under employee share purchase plans or other employer equity plans that may not be eligible for the 50% stock option deduction and are not subject to payroll withholdings or reporting, but may reduce the amount of the option benefit received by those employees in the same year that can qualify for such deduction.

## **Working Group on Catalyzing Greater Domestic Investment Opportunities for Canadian Pension Funds**

The 2024 Budget announced that the government, working with pension plans, will create a working group led by Stephen Poloz, the former Governor of the Bank of Canada, and supported by the Deputy Prime Minister and Minister of Finance. The working group’s efforts will focus on areas such as:

- Digital infrastructure and AI investment
- Physical infrastructure
- Airport facilities
- Venture capital investments
- Building more homes, including on public lands
- The removal of the “30% rule” for domestic investments

This announcement builds on the government’s earlier announcement in the 2023 Fall Economic Statement that it will explore removing the “30% rule”, as discussed in our January 2024 [Blakes Five Under 5: What You Need to Know About the Pension Investment Landscape in 2024](#).

## **Disclosure of Pension Fund Investments**

As a follow-up to the 2023 Fall Economic Statement, the 2024 Budget proposes further amendments to the *Pension Benefits Standards Act, 1985*. The amendments would enable and require the Office of the Superintendent of Financial Institutions to publicly disclose information on the investments of large federally regulated pension plans. Required disclosure will be set out in regulations but would include the distribution of plan investments by jurisdiction and by asset class within each jurisdiction.

The 2024 Budget states that the government will continue to engage the provinces and territories to ensure that similar disclosures of Canada’s largest pension plans are in a simple and uniform format.

## **Enhancements to the Home Buyers’ Plan**

The 2024 Budget also announced the government’s intention to amend the ITA to increase the Home Buyers’ Plan withdrawal limit. Currently, the ITA permits tax-free withdrawals from registered retirement savings plans (RRSPs) if such withdrawals are put towards buying or building a qualifying home (subject to repayment requirements). After April 16, 2024 first-time home buyers can withdraw up to C\$60,000 from their RRSPs on a tax-free basis, up from the previous limit of C\$35,000.

As well, the 2024 Budget announced the government's intention to amend the ITA to temporarily extend the grace period during which homeowners are not required to repay their Home Buyers' Plan withdrawals to their RRSP by an additional three years. This extension applies to any Home Buyers' Plan participants who made a withdrawal or who will make one between January 1, 2022, and December 31, 2025. Such participants will now only have to begin repaying their withdrawals in the fifth year after the year that they made their withdrawal.

## **Possible Changes to the Qualified Investments for Registered Plans**

The 2024 Budget invites stakeholders to provide suggestions on modernizing the rules that govern qualified investments for registered plans on a prospective basis to improve the clarity and coherence of the registered plans regime. The deadline for comments is July 15, 2024. For a more in-depth discussion of the changes under consideration, see our April 2024 [Blakes Bulletin 2024 Federal Budget: Selected Tax Measures](#).

## **Previously Announced Measures**

The 2024 Budget confirms the federal government's intention to proceed with several previously announced tax and related measures, as modified to take into account consultations, deliberations, and legislative developments since their release. These measures include:

- 1. Retirement Compensation Arrangements:** The 2023 budget proposed to amend the ITA so that fees or premiums paid for the purposes of securing or renewing a letter of credit (or a surety bond) for a Retirement Compensation Arrangement (RCA) that is supplemental to a registered pension plan (RPP) will not be subject to the refundable tax. Draft legislation released in August 2023 expanded this to include fees or premiums paid for the purposes of securing or renewing a letter of credit (or a surety bond) for an RCA that is (i) supplemental to an RPP, a deferred profit sharing plan, a pooled registered pension plan, or any combination of these plans, or (ii) under an arrangement that would, but for the pension adjustment limits and defined benefit plan maximum benefit limits under the ITA and the regulations thereunder, meet all or substantially all of the criteria to be a registered pension plan. This change would apply to fees or premiums paid on or after March 28, 2023. The 2023 budget also proposed allowing employers to request a refund of previously remitted refundable taxes in respect of fees or premiums paid for letters of credit (or surety bonds) by RCA trusts, based on the retirement benefits that are paid out of the employer's corporate revenues to employees that had RCA benefits secured by letters of credit (or surety bonds). This change would apply to retirement benefits paid after 2023. For further information on the RCA proposals, see our March 2023 [Blakes Bulletin 2023 Federal Budget: Selected Pensions, Benefits and Executive Compensation Measures](#), and our August 2023 [Blakes Bulletin Update on 2023 Budget and Proposed Amendments to Retirement Compensation Arrangements and Other Deferred Income Plans](#).
- 2. Employee Ownership Trusts:** The 2023 budget proposed tax rules to facilitate the creation of employee ownership trusts (EOTs). Draft legislation in August 2023 included some technical changes to the draft legislation provided with the 2023 budget, and the 2023 Fall Economic Statement proposed an exemption from tax on the first C\$10 million in capital gains realized on the sale of a business to an EOT. The 2024 Budget provides further detail on the proposed exemption and conditions. These measures would apply to qualifying dispositions of shares occurring between January 1, 2024 and December 31, 2026. For further information on the EOT proposal, please see our April 2024 [Blakes Bulletin 2024 Federal](#)

[\*Budget: Selected Tax Measures\*](#). For further information on the previous draft legislation, see our March 2023 [\*Blakes Bulletin 2023 Federal Budget: Selected Pensions, Benefits and Executive Compensation Measures\*](#), and our August 2023 [\*Blakes Bulletin Update on 2023 Budget and Proposed Amendments to Retirement Compensation Arrangements and Other Deferred Income Plans\*](#).

Author: [Blake, Cassels & Graydon LLP](#)

Blake, Cassels & Graydon LLP