**COMPREHENSIVE CASE SOLUTIONS**

***NOTE****:*

*The cases related to these solutions are on Connect. They are not printed in the text.*

**Solution to COMPREHENSIVE CASE ONE**

*Comparison of two employment offers received by John Smith*

1. Offer of employment from ABC Co.
   1. Salary of $45,000 is included in income when received [ITA 5(1)]
   2. Stock option: The option is “in the money” at the date of grant; exercise price = $20; value at grant date = $25.

If ABC Co is not a Canadian-controlled private corporation (CCPC):

* there will be an employment income inclusion on the exercise date to the extent the value at the exercise date exceeds $20 [ITA 7(1)]
* the stock option deduction will not be available [ITA 110(1)(d)]
* John will have a capital gain or loss on the disposition of the shares based on the difference between the selling price and the value at the date of exercise

If ABC Co is a CCPC:

* the employment income inclusion is deferred until the date of disposition [ITA 7(1.1)]
* if John does not dispose of the ABC Co shares within two years after acquiring them, John is entitled to the stock option deduction which is equal to ½ of the stock option employment benefit [ITA 110(1)(d.1)]
* John will have a capital gain or loss on the disposition of the shares based on the difference between the selling price and the value at the date of exercise
  1. Home purchase loan: John will have an imputed interest benefit included in his employment income. The benefit is calculated by multiplying the loan principal by the prescribed rate of interest. The benefit is reduced by the 1% interest paid by John, provided the interest is paid by 30 days after the end of the calendar year.

If the prescribed rate increases, the loan benefit will continue to be calculated using the 2% prescribed rate in effect at the time the home purchase loan was received (for a period of five years) [ITA 80.4].

* 1. Private health services plan: The annual premium for prescription drugs, dental, and vision coverage does not result in a taxable benefit [ITA 6(1)(a)].