



Wealth
Management

the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

Employee compensation — Deferred share units

Please contact us for more information about the topics discussed in this article.

As an employee, you may be compensated in a number of ways. Your remuneration could include salary, a bonus, and/or shares of the company you work for. This article discusses the taxation and implications of receiving deferred share units (DSUs).

What is it?

DSUs are hypothetical share units that are granted to you based on your position in the company, the length of time you have been employed by the company and/or the company's performance. These notional units fluctuate in value based on the underlying company stock but don't represent actual share ownership until you convert the units to shares at redemption time. DSUs are designed to mirror share ownership and you'll generally be granted additional DSUs equal to the value of dividends being paid on the regular shares. DSUs can only be awarded to employees of a corporation.

DSUs generally cannot be redeemed until after your retirement, termination of your employment, or death. You may be able to redeem your DSUs for either company shares or cash.

Why is it used?

Companies generally use DSUs as a form of long-term compensation. They are meant to encourage employees to consider the long-term success

of the company and maximize share value over a long-time horizon. One of the drawbacks of DSUs is that they may not be viewed as an incentive if employees anticipate a significant drop in share price.

How is it taxed?

To the individual

There's no tax implication to you when you're granted DSUs. Taxation is deferred until you redeem the DSUs. At redemption, the fair market value (FMV) of the units will be taxed as employment income on your income tax return for the year the redemption takes place. The taxable benefit arising from the redemption of DSU's is not eligible for the stock option deduction.

An amount equal to the FMV of the units, net of the applicable source withholding taxes, could be paid out to you in cash or shares of the corporation. If you receive shares, any future gain or loss on the sale of those shares would generally be taxed as a capital gain or loss.

Where there is tax-deferral on the compensation you receive, you should be aware of the salary deferral arrangement (SDA) rules. The SDA rules are complex but essentially have been put in place to prevent you from deferring the receipt and taxation of compensation by having your employer defer your compensation earned in a current year to a future year. If the SDA rules are triggered, you'll have to pay tax on the compensation in the current year, even if you receive the compensation in a future year.

There is a specific exemption from the SDA rules for DSU plans. If your employer makes a payment within one year after you retire, are terminated from your employment, or your death, and this payment is based on the FMV of the company shares, the DSU plan will not be considered a SDA. This means you must redeem all of your DSUs no later than the end of the first calendar year following the year of your retirement, termination of employment, or death if you want to avoid the SDA rules.

To the company

The corporation is entitled to a deduction equal to the FMV of the units in the year it's paid out of the plan as stock payments (provided that the corporation acquires the shares on the open market) or as a cash payout. If the shares are provided to the employee from treasury in exchange for their units, no deduction is available to the corporation.

The company needs to be aware of the SDA rules and structure the DSU plan accordingly. Due to the increased Canada Revenue Agency (CRA) scrutiny of DSU plans, care should be taken when structuring such plans. The wording of DSU plans should contain a formula related to the employee's duties to determine, in advance, the number of DSUs that can be awarded. A qualified tax advisor can assist in the structuring of a DSU plan.

This article may contain strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax or insurance advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax, legal and/or insurance advisor before acting on any of the information in this article.



**Wealth
Management**

This document has been prepared for use by the RBC Wealth Management member companies, RBC Dominion Securities Inc. (RBC DS)*, RBC Phillips, Hager & North Investment Counsel Inc. (RBC PH&N IC), RBC Wealth Management Financial Services Inc. (RBC WMFS), Royal Trust Corporation of Canada and The Royal Trust Company (collectively, the "Companies") and their affiliates, RBC Direct Investing Inc. (RBC DI)* and Royal Mutual Funds Inc. (RMFI). *Member – Canadian Investor Protection Fund. Each of the Companies, their affiliates and the Royal Bank of Canada are separate corporate entities which are affiliated. "RBC advisor" refers to Private Bankers who are employees of Royal Bank of Canada and mutual fund representatives of RMFI, Investment Counsellors who are employees of RBC PH&N IC, Senior Trust Advisors and Trust Officers who are employees of The Royal Trust Company or Royal Trust Corporation of Canada, or Investment Advisors who are employees of RBC DS. In Quebec, financial planning services are provided by RMFI or RBC WMFS and each is licensed as a financial services firm in that province. In the rest of Canada, financial planning services are available through RMFI or RBC DS. Estate and trust services are provided by Royal Trust Corporation of Canada and The Royal Trust Company. If specific products or services are not offered by one of the Companies, RBC DI or RMFI, clients may request a referral to another RBC partner. Insurance products are offered through RBC Wealth Management Financial Services Inc., a subsidiary of RBC Dominion Securities Inc. When providing life insurance products in all provinces except Quebec, Investment Advisors are acting as Insurance Representatives of RBC Wealth Management Financial Services Inc. In Quebec, Investment Advisors are acting as Financial Security Advisors of RBC Wealth Management Financial Services Inc. RBC Wealth Management Financial Services Inc. is licensed as a financial services firm in the province of Quebec. The strategies, advice and technical content in this publication are provided for the general guidance and benefit of our clients, based on information believed to be accurate and complete, but we cannot guarantee its accuracy or completeness. This publication is not intended as nor does it constitute tax or legal advice. Readers should consult a qualified legal, tax or other professional advisor when planning to implement a strategy. This will ensure that their individual circumstances have been considered properly and that action is taken on the latest available information. Interest rates, market conditions, tax rules, and other investment factors are subject to change. This information is not investment advice and should only be used in conjunction with a discussion with your RBC advisor. None of the Companies, RMFI, RBC WMFS, RBC DI, Royal Bank of Canada or any of its affiliates or any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. In certain branch locations, one or more of the Companies may carry on business from premises shared with other Royal Bank of Canada affiliates. Notwithstanding this fact, each of the Companies is a separate business and personal information and confidential information relating to client accounts can only be disclosed to other RBC affiliates if required to service your needs, by law or with your consent. Under the RBC Code of Conduct, RBC Privacy Principles and RBC Conflict of Interest Policy confidential information may not be shared between RBC affiliates without a valid reason. ®/™ Trademark(s) of Royal Bank of Canada. Used under licence. © Royal Bank of Canada 2024. All rights reserved.