

- Securities acquired from your employment

You will be taxed on securities (or interests in securities) you get free or cheaply either by reason of your employment or from your employer (or a person connected with the employer). This Help Sheet gives you information to help you fill in boxes 2.31 to 2.39 of the Share Schemes Pages.

There are various ways your employer can pass securities to you, and the tax treatment may be different depending on the method used. In each case, the securities may be in the company for which you work, or in any other company.

- You may be granted an option to buy securities.
- The securities may be given to you free.
- You may be given the opportunity to buy the securities for less than their market value.

This Help Sheet does not deal with securities options (see the Notes on Share Schemes pages SN2 to SN8), or shares acquired through an approved Profit Sharing Scheme or Share Incentive Plan.

If you get securities in connection with your employment which do not come from a securities option or through an approved Share Incentive Plan, this Help Sheet will help you to decide on what amount you will be taxed and for what year.

It does not make any difference whether you acquire your shares through a share scheme or otherwise, so long as they are acquired because of your employment or the opportunity to acquire them was made available by your employer (or a person connected to your employer).

FREE OR CHEAP SECURITIES

If you acquire securities from your employment and the price you paid for them was less than they were worth at that time, you will be taxed on the difference between what the securities were worth and the price you paid for them. This includes:

- securities subject to a risk of forfeiture where that risk will last more than 5 years from the acquisition
- securities with a risk of forfeiture lasting less than 5 years where you have elected with your employer to pay the tax upon acquisition. Otherwise see *Help Sheet IR217: Securities acquired: post-acquisition charges*.

Example

On 1 October 2004 you are given the opportunity to buy 1,000 securities in the company you work for at a price of £2 per security. The market value of the securities is £3 per security. The opportunity arises as part of a security purchase scheme provided by the company for employees.

The taxable amount is:

- market value of securities bought $£3 \times 1,000 =$ £3,000
- minus price paid for securities $£2 \times 1,000 =$ £2,000
- Taxable amount £1,000

If this applies to you complete:

- boxes 2.31 and 2.32 on Page S1
- boxes 2.69 and 2.70 on Page S3, and
- boxes 2.71 to 2.74 in the 'Securities acquired' column on Page S3 of the Share Schemes Pages.

Then use **Working Sheet 1** below to work out the taxable amount.

Working Sheet 1

Market value per security (box 2.74)	A	£
Number of securities (box 2.72)	B	
box A x box B		
Total market value of securities bought	C	£
Amount paid per security <i>if any</i> (box 2.73)	D	£
box B x box D		
Total amount paid for securities	E	£
box C minus box E		
Taxable amount (copy to box 2.33)	F	£

If PAYE has been operated on this amount already, you will also need to enter in box 2.41 the amount on which PAYE has been operated. Your employer will let you have details (included on your P60, or P45 Part 1A if you are a former employee) of this amount and of how much tax has been accounted for. Include these amounts in boxes 1.8 and 1.11 in the Employment Pages.

SHARE/SECURITIES INCENTIVE SCHEMES

Under these schemes you may be promised or allocated a number of securities but you will not acquire the securities until certain conditions are met. In these cases you will be taxed when the conditions are satisfied and you acquire the securities. If this applies to you complete **Working Sheet 1** to work out the taxable amount and enter the details in the same boxes requested in the working sheet.

If, when the promise or allocation is made, you acquire a right to receive securities at a future time (even if subject to certain conditions), this arrangement may fall to be treated as a Securities Option (see guidance in the Helpsheet IR102(Notes)) even though there may be no exercise process. If this is the case complete the relevant Working Sheet in that Helpsheet.

RESTRICTED SECURITIES

Where the securities acquired are restricted in some way, the market value of those securities may be less than the value of similar, unrestricted securities.

If, on acquiring the securities, you have elected with your employer to ignore some or all of those restrictions, the market value for box A of the working sheet and box 2.74 of the Share Scheme pages should reflect the unrestricted value of the securities (to the extent you have elected to ignore the restrictions).

Please see Help Sheet IR217 for details of post-acquisition charges that may arise when the securities cease to be restricted, when restrictions are varied, or when such securities are disposed of.

CONVERTIBLE SECURITIES

Where securities are acquired, and those securities can be converted into securities of a different description, the market value for box A of Working Sheet 1 and box 2.74 of the Share Scheme pages should reflect the market value of those securities as if they were not capable of being converted.

Please see Help Sheet IR217 for details of post-acquisition charges that may arise in connection with the convertible securities.

SHARE/SECURITIES PURCHASE SCHEMES

Employees are often given the opportunity to buy securities in their company through a securities purchase plan run by their employer. If the savings you put into the plan comes from your salary and have been taxed in full under PAYE, you will not be taxed on the purchase of the securities if you buy them at their market value. If your employer pays the costs of the securities dealing that will be a benefit to be included in your P11D.

SECURITIES WITH ARTIFICIALLY DEPRESSED MARKET VALUE

In addition to the information required under the heading 'Free or Cheap Securities', additional income tax may arise on acquisition of the securities where the market value of employment related securities acquired has been reduced by at least 10% at the time of acquisition.

This additional tax will only apply if the reduced market value was a result of things done other than for genuine commercial purposes in a period of 7 years ending on the date of acquisition. These purposes can include:

- anything done as part of a scheme or arrangement designed to avoid tax or National Insurance contributions, **and**
- any transaction between companies in a group of companies on terms other than would be expected from persons acting at arms length.

The additional tax on acquisition will not apply where the shares acquired are subject to a risk of forfeiture lasting less than 5 years and you have not elected with your employer to pay tax at the time of acquisition.

Working Sheet 2

Non-reduced market value per security

Note: where the securities acquired are restricted securities, the non-reduced market value in box A should be determined as though the securities were not restricted.

Reduced market value per security or, if greater, the amount of consideration given for the acquisition of the securities

Taxable reduction per security box A minus box B

Number of securities

Taxable amount (copy to box 2.33) box C x box D

If this applies to you, complete:

- boxes 2.31 and 2.32 on Page S1
- boxes 2.69 and 2.70 on Page S3, **and**
- boxes 2.71 to 2.74 in the 'Securities acquired' column on Page S3 of the Share Schemes pages.

If PAYE has been operated on this amount already, you will also need to enter in box 2.41 the amount on which PAYE has been operated. Your employer will let you have details (included on your P60, or P45 Part 1A if you are a former employee) of this amount and of how much tax has been accounted for. Include these amounts in boxes 1.8 and 1.11 in the Employment Pages.

Please see Help Sheet IR217 for details of post-acquisition charges that may arise where the market value of the securities is artificially low after acquisition.

PUBLIC OFFER SHARES

Employees are often given priority shares in a public offer. If you pay the same price as the public you will not normally be taxed on the benefit to you of getting the extra shares. Further information is available on our website

www.inlandrevenue.gov.uk/shareschemes

These notes are for guidance only, and reflect the position at the time of writing. They do not affect any rights of appeal.