

- Employees' shares: Operation of Pay As You Earn (PAYE) and National Insurance contributions (NICs)

This Help Sheet gives you information to help you fill in the Share Schemes Pages of your Tax Return if:

- **you have received free or cheap securities either directly or from the exercise of a securities option, or**
- **you have received something for the assignment, release or otherwise in connection with a securities option, and**
- **tax is due for those securities or the value received, and**
- **some or all of that tax has been paid to HM Revenue & Customs under the PAYE system.**

It also tells you what to do if you paid any of your employer's NICs when you exercised a securities option.

APPROVED SHARE SCHEMES

— Approved profit sharing schemes

Shares given to you under an approved profit sharing scheme will be taxed **only** if they are not kept in the Scheme Trust for three years. In this case tax will be accounted for under PAYE.

The trustees of the profit sharing scheme, or your employer, will let you have details (on your P60, or P45 Part 1A if you are a former employee) of the amount on which PAYE has been operated and of how much tax has been accounted for. These amounts should not be included in the Share Schemes Pages. Instead, include them in **boxes 1.8 and 1.11 in the Employment Pages**.

— Approved savings-related share option schemes

• Exercise of a share option

Your employer will not operate PAYE on any taxable amount you receive on the exercise of an option under an approved savings-related share option scheme. Follow the instructions on pages SN2 and SN3 of the Share Scheme Notes for 'Share options - Approved savings-related share option schemes' to calculate the taxable amount.

— Approved company share option schemes

• Exercise of a share option

Your employer will operate PAYE when you exercise your option:

- within three years of you being granted them, **and**
- you did not exercise your option because you left your job for one of the exempt reasons, **and**
- the shares were 'readily convertible assets' (see below).

Your employer will let you have details (on your P60 or P45 part 1A if you are a former employee) of the amount on which PAYE has been accounted for. Include these amounts in **boxes 1.8 and 1.11 in the Employment Pages**. Follow the instructions on page SN3 of the Share Schemes Notes for 'Approved discretionary share option schemes' in case the tax due is different from the tax accounted for under PAYE.

• Cancellation or release of approved share option

Your employer is required to operate PAYE on any taxable amount you receive in the form of cash or 'readily convertible assets' (see 'Convertible securities' on page 2), for cancelling or releasing an option under an approved scheme. Your employer will let you have details (on your P60 or P45 Part 1A if you are a former employee) of the amount on which PAYE has been accounted for. Include these amounts in **boxes 1.8 and 1.11 in the Employment Pages**.

Follow the instructions on page SN6 of the Share Schemes Notes for 'All securities options - Cancellation or release of options' in case the tax due is different from the tax accounted for under PAYE.

— Approved Share Incentive Plan

Your employer will operate PAYE when any Free, Matching and Partnership shares cease to be subject to the plan:

- within five years of you buying or being awarded them, **and**
- they did not cease to be subject to the plan because you left your job for one of the exempt reasons, **and**
- the shares were 'readily convertible assets' (see below).

Your employer will let you have details (on your P60 or P45 Part 1A if you are a former employee) of the amount on which PAYE has been accounted for. Include these amounts in **boxes 1.8 and 1.11 in the Employment Pages**. Follow the instructions on page SN2 of the Share Schemes Notes for 'Approved Share Incentive Plans' in case the tax due is different from the tax accounted for under PAYE.

SECURITIES PROVIDED OTHER THAN UNDER APPROVED SHARE SCHEMES

Your employer is required to operate PAYE on any taxable amount provided in the form of 'readily convertible assets'.

Securities (including shares) are readily convertible assets (RCAs) if:

- the securities can be sold or otherwise realised on a recognised investment exchange, such as the Stock Exchange, the New York Stock Exchange, etc. **or**
- trading arrangements are in place for the shares at the time the taxable income is provided, **or**
- trading arrangements are likely to come into existence in accordance with arrangements or an understanding in place at the time the taxable income is provided.

In all other cases, securities are deemed to be RCAs and subject to PAYE and NICs if securities are not shares for which the company is entitled to a Corporation Tax deduction by reason of Schedule 23 to the Finance Act 2003.

Shares in your employer company or a company which controls your employer – 'own company shares' – are excluded from readily convertible assets as follows:

- Until 27 November 1996 – all own company shares
- On or after 27 November 1996 – own company shares received under approved share schemes (apart from the share incentive plan) or acquired under an option which was granted before that date.

So, from 27 November 1996, readily convertible assets can include own company shares acquired outside an approved share scheme, on or after that date or under an option granted after that date.

— Securities received from your employment

Your employer will operate PAYE when you receive securities free or cheaply from your office or employment where the securities (including convertible securities) are readily convertible assets.

PAYE will be operated at the time the securities are acquired unless the securities are subject to a risk of forfeiture (see page 2, and page SN8 of the Share Schemes Notes).

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

Fill in Working Sheet 1 in the 'Free or Cheap Securities' section of *Help Sheet IR219: Securities acquired from your employment* (available from the Orderline) in case the tax due is different from the tax accounted for under PAYE.

— Restricted securities subject to forfeiture

If the securities were 'readily convertible assets' (as explained on page 1), your employer will operate PAYE as follows:

- Where the securities are subject to forfeiture lasting more than 5 years, PAYE will be applied when you acquire the securities. There may also be additional income tax subject to PAYE when the shares are sold or the risk of forfeiture is lifted (see *Help Sheet IR217: Securities acquired: post acquisition charges*).
- If the securities are subject to forfeiture lasting less than 5 years from the date you acquire them, PAYE will be applied when the risk of forfeiture is lifted **unless** you have elected with your employer to pay the income tax when you acquire the shares **or** you sell the securities before the risk of forfeiture is lifted (in which case PAYE will be applied upon sale).

Your employer will let you have details (included on your P60, or P45 Part 1A if you are a former employee) of the amount on which PAYE has been operated and of how much tax has been accounted

for. Include these amounts **in boxes 1.8 and 1.11 in the Employment Pages**.

Fill in the relevant Working Sheet in the *Help Sheet IR217: Securities acquired: post acquisition charges* (available from the Orderline) in case the tax due is different from the tax accounted for under PAYE.

— Convertible securities

Where you have acquired convertible securities from your employer and those securities are readily convertible assets, PAYE should have been operated on the difference between their market value (ignoring the value of the right to convert) and anything you paid for them.

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

Fill in the relevant Working Sheet in the *Help Sheet IR217: Securities acquired: post acquisition charges* (available from the orderline) in case the tax due is different from the tax accounted for under PAYE.

— Exercise of a securities option

Your employer will operate PAYE when you receive securities on the exercise of an option granted to you **on or after 27 November 1996** where the securities are readily convertible assets. PAYE will be operated at the time the securities option is exercised.

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

Follow the instructions on page SN7 of the Share Schemes Notes, 'Exercise of a securities option', in case the tax due is different from the tax accounted for under PAYE.

— Compensation received in connection with a securities option

Your employer will operate PAYE on any taxable amount you receive in the form of cash or 'readily convertible assets', in connection with an option (for cancelling or releasing an option). Your employer will let you have details (included in your P60 or P45 Part 1A if you are a former employee) of the amount on which PAYE has been accounted for. Enter these amounts **in boxes 1.8 and 1.11 in the Employment Pages**.

Follow the instructions on page SN6 of the Share Schemes Notes for 'All securities options - Cancellation or release of options' in case the tax due is different from the tax accounted for under PAYE.

— Post Acquisition charges

Where the securities are readily convertible assets, your employer will operate PAYE when a taxable event arises. Please see *Help Sheet IR217: Securities acquired: post acquisition charges* for details of these events. Your employer will let you have details (included on your P60, or P45 Part 1A if you are a former employee) of the amount on which PAYE has been operated and of how much tax has been accounted for. Include these amounts **in boxes 1.8 and 1.11 in the Employment Pages**.

Fill in the relevant Working Sheet in the *Help Sheet IR217: Securities acquired: post acquisition charges* (available from the Orderline) in case the tax due is different from the tax accounted for under PAYE.

EMPLOYERS' NATIONAL INSURANCE CONTRIBUTIONS ON SECURITIES OPTION GAINS

Your employer will have to pay employer's (Secondary) NICs on any gain made when you exercise a securities option if the option was granted to you after 5 April 1999 and the securities were readily convertible assets. Secondary NICs are also payable if you receive cash or 'readily convertible assets' for cancelling or releasing an option granted after 5 April 1999.

If you made an agreement or entered an election with your employer so that you paid some or all of the Secondary NICs on the securities option gain, you can set the amount you paid against the taxable amount. To be sure of the tax relief you must have paid the Secondary NICs before 5 June following the end of the tax year in which you exercised the securities option.

Example

An employee receives a 'non-approved' securities option on 1 October 1999 and exercises it on 1 February 2006, making a gain of £1,000. She has agreed with her employer that she will pay all of the employer's liability for Secondary NICs.

Employer's NIC is 12.8% of £1,000 = £128.

Employee pays the employer £128 on 7 February 2006.

Income tax is collected through PAYE.

PAYE is operated on £1,000 minus £128 = £872.

Your employer will operate PAYE on the taxable amount after giving tax relief for the Secondary NICs that you have paid. Your employer will let you have details (included on your P60, or P45 Part 1A if you are a former employee) of the amount on which PAYE has been operated and of how much tax has been accounted for.

Include these amounts **in boxes 1.8 and 1.11 in the Employment Pages**. Your employer will also give you details of the Secondary NICs that you have paid. Follow the instructions on:

- page SN7 of the Share Schemes Notes, 'Exercise of a securities option' or
- page SN6 of the Share Schemes Notes, 'Cancellation or release of options'

in case the tax due is different from the tax accounted for under PAYE.

Enterprise Management Incentive (EMI) options: Secondary NICs are also payable if there is a taxable amount on the exercise of an EMI option. If you agreed to bear the cost of the Secondary NICs, you can have tax relief in the same way as for any other share option - as described above. Follow the instructions on pages SN4 and SN5 of the Share Schemes Notes for 'Enterprise Management Incentive options' in case the tax due is different from the tax accounted for under PAYE.

Tax relief is only due for the Secondary NICs that you have paid. You cannot deduct any primary (employee's) NICs paid in calculating the tax on the share option gain.