

- Shares as benefits

This Help Sheet gives you information to help you fill in box 2.27 in the Share Schemes Pages of your Tax Return.

ACQUISITION OF SHARES AS BENEFITS

You will be taxed on the benefit arising if:

- you acquired shares or an interest in shares by reason of your employment, **and**
- the price you paid when you acquired them was less than they (or fully-paid shares of the same class) were worth at that time, **and**
- the benefit of acquiring the shares free or cheaply is not otherwise taxable (for example, as an emolument).

The taxable benefit is worked out by treating the 'under-value' at which you acquired your shares as if it were an interest-free loan from your employer.

The amount of taxable benefit is:

- the 'cash equivalent' of the benefit for each year the loan exists - that is, the amount of interest that would have been payable for the year at the official rate. (The official rate varies from time to time. Your Tax Office will be able to provide these details.)
- the amount of the loan still outstanding when
 - you sell or transfer the beneficial ownership of your shares, **or**
 - you are released from paying the outstanding amount due, where the shares are partly paid.

See 'Shares sold or transferred' on page 2.

What is the 'under-value'?

The 'under-value' is the difference, at the time you acquired the shares, between:

- the market value of fully-paid up shares of the same class as yours, **and**
- the amount you paid for your shares at that time.

The under-value is treated as a notional interest-free loan. When you pay further instalments, the amount of the loan is reduced.

Example 1

1.6.96 You acquire 2,500 shares in the company you work for. The market value of the shares is £4 each, but you are allowed to pay for them in four yearly instalments of £1 each.

Value of shares	£10,000
First instalment	<u>£2,500</u>
Under-value/amount of loan	£7,500

1.6.97 Second instalment paid £2,500
Amount of loan reduced to £5,000

1.6.98 Third instalment paid £2,500
Amount of loan reduced to £2,500

1.6.99 Fourth and last instalment paid £2,500
Amount of loan reduced to 0

The cash equivalent of the benefit

You will be taxed on the benefit arising for each year that you are treated as having an interest-free loan **unless** the total amount of the loan, and any other loans (notional or actual) you obtain by reason of your employment, at no time in the tax year exceeds £5,000.

The cash equivalent (the taxable amount) is the amount of interest that would have been payable at the official rate, if interest had been payable on the loan.

Example 2

1.6.96 You acquire 2,500 shares in the company you work for. The market value of the shares is £4 each, but you are allowed to pay £1 each for them.

Value of shares	£10,000
Price paid	<u>£2,500</u>
Under-value/amount of loan	£7,500

5.4.97 Notional loan £7,500
Average amount of loan during year $£7,500 + £7,500 \div 2 = £7,500$

Interest for whole year
 $7,500 \times \text{official rate of interest (6\%)} = £450$

Number of complete tax months loan existed 10

Cash equivalent $£450 \times \frac{10}{12}$ equals:

1996-97 taxable benefit £375

If this applies to any of your shares:

- complete boxes 2.25 and 2.26 on Page S1 of the Share Schemes Pages
- complete boxes 2.42 and 2.43 on Page S2 of the Share Schemes Pages
- complete boxes 2.44, 2.45, 2.46 and 2.47 in the 'Shares acquired' column on Page S2 of the Share Schemes Pages

then use Working Sheet 1 to work out the taxable amount.

Working Sheet 1	
Market value of a fully-paid up share when you acquired your shares	A £ <input type="text"/>
Amount you paid for each share when you acquired them	B £ <input type="text"/>
Under-value per share	C $\frac{\text{box A} - \text{box B}}{\text{£}}$ <input type="text"/>
Number of shares	D £ <input type="text"/>
Original under-value/notional loan	E $\frac{\text{box C} \times \text{box D}}{\text{£}}$ <input type="text"/>
If shares were acquired before 6.4.96, total of any further amount paid for them before 6.4.96	F £ <input type="text"/>
Notional loan at 6.4.96 (or date shares acquired, if later)	G $\frac{\text{box E} - \text{box F}}{\text{£}}$ <input type="text"/>
Total of any further amounts paid during the year (1996-97)	H £ <input type="text"/>
Notional loan at 5.4.97 (or date shares sold, if earlier)	I $\frac{\text{box G} - \text{box H}}{\text{£}}$ <input type="text"/>
Average amount of notional loan	J $\frac{(\text{box G} + \text{box I})}{2}$ £ <input type="text"/>
Official rate of interest	K <input type="text"/>
Interest for whole year	L $\frac{\text{box J} \times \text{box K}}{\text{£}}$ <input type="text"/>
Number of complete tax months (6th of month to 5th of following month) throughout which loan existed in tax year	M <input type="text"/>
Taxable amount (the cash equivalent)	N $\frac{\text{box L} \times (\text{box M})}{12}$ £ <input type="text"/>

Interest relief on a loan used to buy shares

You can claim tax relief for interest paid on an actual loan used to buy ordinary shares in:

- a 'close' company (which is not a close investment holding company) in which, when you acquired the shares, you
 - had a 'material interest' (of more than 5%), or
 - worked in the actual management or conduct of the business for the greater part of your time, or
- an 'employee-controlled' company that is
 - unlisted
 - resident in the UK, and
 - a trading company, or the holding company of a trading group.

A 'close company' is, broadly, a company controlled by five or fewer shareholders or by any number of directors.

An 'employee-controlled' company is, broadly, one in which more than 50% of the issued ordinary share capital and voting power is beneficially owned by full-time employees. Where an individual beneficially owns more than 10%, the excess over 10% is ignored for this purpose.

If you could have claimed relief for any interest paid had you bought your shares with an actual loan, copy the taxable amount of the benefit in box N of Working Sheet 1 to box 15.3 on page 5 of your Tax Return.

Shares sold or transferred

You will be taxed on the benefit arising if:

- you sell or transfer your shares, and
- the total amount you have paid for the shares (or fully paid shares of the same class) is less than they were worth when you acquired them.

You will be taxed on the benefit arising if the amount outstanding on partly paid shares is released or written off.

In both these cases the taxable amount is the amount of the undervalue which you have not paid up by the time you transfer your shares, or at the time the amount outstanding is released.

SA101 (NET) Enter the taxable amount in box 2.27 on Page S1 of the Share Schemes Pages.

Example 3

6.4.96	Value of shares when acquired	£10,000
1.6.96	Total amounts paid for shares	£2,000
	Under-value/amount of loan	£8,000
1.10.96	Shares sold	
	1996-97 Taxable amount	£8,000

If this applies to any of your shares:

- complete boxes 2.25 and 2.26 on Page S1 of the Share Schemes Pages
- complete boxes 2.42 and 2.43 on Page S2 of the Share Schemes Pages
- complete boxes 2.44, 2.45, 2.46 and 2.47 in the 'Shares acquired' column on Page S2 of the Share Schemes Pages.

Then use Working Sheet 2 to work out the taxable amount.

Working Sheet 2

Market value of a fully-paid up share when you acquired your shares	O £
Amount you paid for each share when you acquired them	P £
	box O minus box P
Under-value per share	Q £
Number of shares	R
	box Q x box R
Notional loan	S £
Total of any further amounts paid for the shares before you sold or transferred them	T £
	box S minus box T
Taxable amount	U £

Enter the taxable amount in box 2.27 on Page S1 of the Share Schemes Pages.

You will be taxed on this benefit arising, even if you can claim interest relief.

- Shares acquired: post-acquisition charges

This Help Sheet gives you information to help you fill in box 2.30 in the Share Schemes Pages of your Tax Return.

POST-ACQUISITION CHARGES

If you have acquired shares or an interest in shares:

- by reason of your employment, **and**
- at a time when you were resident and ordinarily resident in the United Kingdom, **and**
- not under an offer to the public generally,

you will be taxed on:

- some or all of the increase in the value of your shares in the period after you acquired them if your shares were
 - subject to restrictions, **or**
 - in a subsidiary company
- any special benefits you receive by virtue of your ownership of the shares.

RESTRICTED SHARES

When the value of your shares is increased by an alteration in the rights or any restrictions attaching to them, or to other shares in the company, you have to pay Income Tax on the amount of the increase, **unless**:

- your shares are in a subsidiary company which is a 'dependent' subsidiary (for which there may be a different tax charge - see below), **or**
- all of the shares of the same class as yours are similarly restricted, **and**
 - the majority of them are held by persons other than employees or directors, **or**
 - employees or directors control the company by virtue of their holdings of that class of shares, **or**
 - the company is a subsidiary (other than a 'dependent' subsidiary) which has only one class of shares.

A tax charge arises each time there is an alteration, and more than one charge may arise on the same shares.

Example 1

1.10.93 You acquire 1,000 shares in the company you work for. The shares restrict the right of employees to receive dividends.

1.10.96 The restriction is lifted so that employee shareholders have dividend rights.

Value of share	
- with dividend rights	£3
- with no dividend rights	£2
Increase due to alteration	£1
1996-97 taxable amount (1,000 x £1)	£1,000

If this applies to any of your shares:

- complete boxes 2.28 and 2.29 on Page S1 of the Share Schemes Pages
- complete boxes 2.42 and 2.43 on Page S2 of the Share Schemes Pages
- complete boxes 2.44, 2.45, 2.47 and 2.48 in the 'Post-acquisition charges' column on Page S2 of the Share Schemes Pages.

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

Working Sheet 1

Market value of each share after restrictions altered	A £
Market value of each share before restrictions altered	B £
	box A minus box B
Increase per share	C £
Number of shares	D
	box C x box D
Taxable amount	E £

Enter the taxable amount 'E' in box 2.30 on Page S1 of the Share Schemes Pages.

SHARES IN SUBSIDIARY COMPANIES

If the shares you have acquired are in a company which:

- was a 'dependent' subsidiary when you acquired them, **or**
- has become a 'dependent' subsidiary while you have held the shares

you will have to pay Income Tax on the increase in the value of your shares in a period of up to seven years after you acquire them, or after the company became a dependent subsidiary.

— What is a dependent subsidiary?

Every subsidiary company, 51% of whose shares are held by another company, is a dependent subsidiary throughout a period of account (the period for which the company makes up its accounts) **unless**:

- its business is carried on independently from other companies in the same group, **and**
- the directors of the parent company certify this to the Inland Revenue, with a report from the auditors of the subsidiary, within two years of the end of the period of account.

If the company was a dependent subsidiary when you acquired your shares, the increase in value period ends seven years after you acquired them or when you sell your shares, if that is earlier.

If the company became a dependent subsidiary after you acquired your shares, the period ends seven years after the company became a dependent subsidiary or when you sell your shares or the company ceases to be a dependent subsidiary, if that is earlier.

Example 2

1.12.89 You acquire 1,000 shares in a dependent subsidiary company, market value £2 each.
 1.12.96 You still hold the shares, market value £5 each.
 Increase in value in seven year period is £3 a share (£5 minus £2).
1996-97 taxable amount (1,000 x £3) £3,000

Your employer should be able tell you whether the company whose shares you have acquired has been a dependent subsidiary company at any time while you have held the shares.

If this applies to any of your shares:

- complete boxes 2.28 and 2.29 on Page S1 of the Share Schemes Pages
- complete boxes 2.42 and 2.43 on Page S2 of the Share Schemes Pages
- complete boxes 2.44, 2.45 and 2.48 in the 'Post-acquisition charges' column on Page S2 of the Share Schemes Pages

then use Working Sheet 2 to work out the taxable amount to go in box 2.30.

Working Sheet 2

Market value of each share when acquired or (if later) when company became a dependent subsidiary	A £
Market value of each share seven years after date at which market value is given in box A on page 1, or (if earlier) when you sold shares	B £
	box B minus box A
Increase per share	C £
Number of shares	D
	box C x box D
Taxable amount	E £

Enter the taxable amount 'E' in box 2.30 on Page S1 of the Share Schemes Pages.

SPECIAL SHAREHOLDER BENEFITS

If you have received any benefits through owning your shares you will have to pay Income Tax on the value of those benefits at the time you received them.

Examples of such benefits include bonus or rights issues of shares, cash, and vouchers or tokens exchangeable for cash or services.

You will be taxed only if the benefits are 'special benefits' which:

- were not made available to at least 90% of holders of shares of the same class as yours, **or**
- did not satisfy any of the conditions for exemption set out below, **or**
- are not otherwise chargeable to Income Tax.

The taxable amount is the value of the benefit when you receive it.

— **Conditions for exemption**

You will not be taxed on benefits made available to less than 90% of holders of shares of the same class as yours if, at the time you received your benefits, one of the following conditions applied:

- employees or directors controlled the company by virtue of their holdings of that class of shares, **or**
- the majority of the company's issued shares (for which benefits are received) were not held by
 - directors or employees of the company or of companies associated with it, **and**
 - associated companies (excluding the parent company if the company is a subsidiary rather than a 'dependent subsidiary' company).

Your employer should be able to tell you whether either of these conditions was satisfied when you received your benefits.

If this applies to any of your shares:

- complete boxes 2.28 and 2.29 on Page S1 of the Share Schemes Pages
- complete boxes 2.42 and 2.43 on Page S2 of the Share Schemes Pages
- complete boxes 2.44, 2.45 and 2.48 in the 'Post-acquisition charges' column on Page S2 of the Share Schemes Pages

then use Working Sheet 3 to work out the taxable amount to go in box 2.30.

Working Sheet 3

Value of special benefit received for each share	A £
Number of shares	B
	box A x box B
Taxable amount	C £

Enter the taxable amount 'C' in box 2.30 on Page S1 of the Share Schemes Pages.

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

- Shares acquired:
Operation of Pay As You Earn (PAYE)

This Help Sheet explains how to fill in the Share Schemes Pages of your Tax Return if you have received free or cheap shares either directly or from the exercise of a share option, and:

- **tax is due in respect of those shares; and**
- **some or all of that tax has been paid to the Inland Revenue under the PAYE system.**

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 (five years for periods up to 28 April 1996). 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 and approved discretionary share option schemes
Your employer will not operate PAYE on any taxable amount you receive on the exercise of an option under an approved share option scheme.

SHARES PROVIDED OTHER THAN UNDER APPROVED SHARE SCHEMES

Your employer will operate PAYE on assessable income provided in the form of 'tradeable assets'.

Shares are **tradeable assets** if:

- the shares can be sold or otherwise realised on a recognised investment exchange, such as the Stock Exchange, **or**
- trading arrangements are in place in respect of the shares at the time the assessable income is provided.

Shares in your employer company or a company which controls your employer - 'own company shares' - are excluded from tradeable 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 or acquired under an option which was awarded before that date.

So, **from 27 November 1996** tradeable 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.

— Exercise of a share option

Your employer will operate PAYE when you receive shares on the exercise of an option granted to you **on or after**

27 November 1996 where the shares are tradeable assets. PAYE will be operated at the time the share 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. Enter these amounts **in boxes 1.8 and 1.11 in the Employment Pages.**

You also need to calculate the taxable amount and include it in the Share Schemes Pages in case the tax due is different from the tax accounted for under PAYE. To do this:

- find out the amount on which PAYE has been operated and which has been included on your P60 or P45 Part 1A in respect of the share option exercise, **then**
- enter in box 2.31B the amount included on your P60 or P45 Part 1A, **then**
- use Working Sheet 5 in the Share Schemes Pages to calculate the taxable amount, **and then**
- enter in box 2.18 the taxable amount G from Working Sheet 5.

— Shares received from your employment

Your employer will operate PAYE when you receive shares free or cheaply from your office or employment where the shares are tradeable assets. PAYE will be operated at the time the shares are acquired. 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. Enter these amounts **in boxes 1.8 and 1.11 in the Employment Pages.**

You also need to calculate the taxable amount and include it in the Share Schemes Pages in case the tax due is different from the tax accounted for under PAYE. To do this:

- find out the amount on which PAYE has been operated and which has been included on your P60 or P45 Part 1A in respect of the share acquisition, **then**
- enter in box 2.31B the amount included on your P60 or P45 Part 1A, **then**
- use Working Sheet 6 in the Share Schemes Pages to calculate the taxable amount, **and then**
- enter in box 2.24 the taxable amount F.

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