

## EMPLOYEE SHARE SCHEMES AND CAPITAL GAINS TAX

**This Help Sheet provides information to help you complete the Capital Gains Pages of your Tax Return when you have disposed of shares you acquired by reason of your office or employment, or by exercising a share option granted because you are (or were) a director or an employee.**

**The Help Sheet tells you about the costs you can take into account in calculating your capital gains or losses. It deals with the following topics:**

- approved profit sharing schemes
- approved savings-related share option schemes (SAYE Schemes)
- company share option plans (CSOPs)
- unapproved share option schemes
- unapproved share schemes
- amounts chargeable to Income Tax
- shares subject to restrictions on disposal
- indexation
- taper relief.

You may also need to look at *Help Sheet: IR284 Shares and Capital Gains Tax*, which explains the rules applying to disposals of shares together with the Notes on the Capital Gains Pages and on the Share Schemes Pages of your Tax Return.

If you are in any doubt about how to calculate your cost for capital gains purposes, ask your Inland Revenue office or tax adviser. You can ask to see the Inland Revenue Capital Gains Manual, which explains the rules in detail.

Some Employee Share Schemes are approved by the Inland Revenue and others are not. The main difference is that people do not usually pay Income Tax when they acquire shares under an approved scheme.

### APPROVED PROFIT SHARING SCHEMES

The cost of your shares, for capital gains purposes, is the market value of the shares when the trustees of the scheme appropriate them to you. The trustees will tell you what this is.

For capital gains purposes, you acquire your shares at the date the trustees appropriate them to you (even though you may not be able to sell them at that time).

### APPROVED SAVINGS-RELATED SHARE OPTION SCHEMES (SAYE SCHEMES)

The cost of your shares for capital gains purposes is usually what you paid for the shares when you exercised your option.

You will only pay Income Tax on the exercise of your option under a SAYE scheme if you have exercised the option:

- within three years of receiving it, **and**
- because the company or the part of the business you work for was sold or taken over.

If you do pay Income Tax on the exercise of your option the amount charged to Income Tax is treated as part of the cost of your shares.

### INDIVIDUAL SAVINGS ACCOUNTS (ISAs)

In 1999-2000, you could transfer shares worth up to £7,000 at the date of transfer into an ISA directly from an approved profit sharing scheme or a SAYE scheme providing certain conditions were met. If you transferred your shares to an ISA in this way, no Capital Gains Tax is payable on the transfer or on the disposal of the shares in the ISA. For general information about ISAs, please read leaflet *IR165: The new Individual Savings Account (ISA)*.

### COMPANY SHARE OPTION PLANS (CSOPs)

These used to be called Approved Executive or Approved Discretionary Share Option Schemes. The cost of your shares for capital gains purposes is usually what you paid for the shares when you exercised your option.

You will only pay Income Tax on the exercise of your option under a CSOP if you exercise the option:

- when the scheme was no longer approved, **or**
- less than three years or more than ten years after the date the option was granted to you, **or**
- less than three years after the date on which you exercised an option under any approved discretionary share option scheme for which Income Tax relief was given.

If you pay Income Tax on the exercise of your option the amount charged to Income Tax is treated as part of the acquisition cost of the shares.

### UNAPPROVED SHARE OPTION SCHEMES

If you exercise your option and acquire shares their cost for capital gains purposes is usually:

- what you paid for the option (if anything)
- the price you paid for the shares when you exercised the option, **and**
- the amount on which you pay Income Tax where the market value of the shares on exercising the option exceeds the price you pay.

### ALL SHARE OPTION SCHEMES

You acquire your shares at the date when you exercise your option.

If you release your option in consideration of the grant of a new option and do not receive anything else you will not be liable to Capital Gains Tax on receipt of the new option. You may be liable to Capital Gains Tax if you receive consideration in addition to the new option and you do not pay Income Tax on this additional consideration.

If you do not exercise an option and it lapses you are not entitled to any allowable loss for capital gains purposes.

### UNAPPROVED SHARE SCHEMES

If you acquire free or cheap shares from your office or employment under an unapproved share scheme, the cost for capital gains purposes is generally the market value of those shares at the date you acquire them.

If, after 16 March 1998, you acquire shares subject to the risk of forfeiture and pay Income Tax when the risk of forfeiture is lifted the capital gains cost of these shares is the amount, if any, you actually pay for the shares subject to the risk of forfeiture.

### AMOUNTS CHARGEABLE TO INCOME TAX

In certain circumstances there are Income Tax charges which apply to employee shares after you have acquired the shares. Broadly these are where:

- you acquire shares subject to the risk of forfeiture and the risk of forfeiture is removed
- you acquire shares subject to restrictions and the value of these shares is increased by later changes to the restrictions
- you acquire shares in a subsidiary company and these shares increase in value
- you acquire shares for less than their market value and you would not otherwise pay Income Tax on the excess of the market value over the price you pay, for example, if you pay for the shares by instalments and you are released from any outstanding liability or you dispose of the shares
- you receive special benefits relating to your shares such as bonus or rights issues that are not made available to at least 90% of holders of shares of the same class as yours.

Amounts which are chargeable to Income Tax in these circumstances can be added to your capital gains acquisition cost and are treated as incurred when you acquired the shares.

For more information about Income Tax and share schemes please ask for the Notes on Share Schemes, available from the Orderline.

### SHARES SUBJECT TO RESTRICTIONS ON DISPOSAL

If, by reason of your office or employment, you acquire shares subject to restrictions on disposal, these shares are treated as a separate class of shares until the restrictions are removed.

### INDEXATION

Indexation allowance was frozen at April 1998 except for companies. For disposals in 1999-2000 any indexation allowance due is calculated by reference to the retail prices index in April 1998.

### TAPER RELIEF

Taper relief replaced indexation allowance for periods after 5 April 1998. Taper relief reduces the amount of gain chargeable to Capital Gains Tax according to the number of whole years the shares have been held after 5 April 1998. Most shares you acquire by reason of your office or employment will be non-business assets which do not benefit from any reduction for taper until they have been held for three whole years. For most people taper relief will have no effect for 1999-2000. If you are in any doubt ask for *Help Sheet IR279: Taper relief*.

For further information on how to calculate capital gains or losses when you dispose of shares please see the Notes to the Capital Gains Pages of your Tax Return and *Help Sheet IR284: Shares and Capital Gains Tax*.

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