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HELP SHEETS AND LEAFLETS

Help Sheets and leaflets giving more detailed information about particular tax rules for share schemes are available from the Orderline.

- *IR16: Share acquisitions by directors and employees. Explanatory notes*
- *IR95: Approved profit sharing schemes. An outline for employees*
- *IR97: Approved Save As You Earn share option schemes. An outline for employees*
- *IR101: Approved Company Share Option Plans. An outline for employees*
- *IR216: Shares as benefits*
- *IR217: Shares acquired: post-acquisition charges*
- *IR218: Shares acquired: Operation of Pay As You Earn (PAYE)*
- *IR219: Shares acquired from your employment*
- *IR287: Employee share schemes and Capital Gains Tax*

Filling in the Share Schemes Pages

These Notes will tell you in what circumstances you have to pay tax on share options or shares you get free or cheaply by reason of your employment. Each taxable occasion is a 'taxable event'. **You must complete a copy of Page S2 of the Share Schemes Pages for each event.** Ask the Orderline for further copies, or you can use photocopies. (If you use a photocopy, please put your name and tax reference at the top.)

You only need to fill in one copy of Page S1 of the Share Schemes Pages - it is a summary of all your taxable events for the year. For example, you may exercise options in an approved savings related scheme twice in one year, over shares in two different companies. In this case:

- fill in a copy of Page S2 for each event
- enter one company and share scheme name in box 2.1 on Page S1 and the other in the 'Additional information' box
- tick box 2.2 if the shares in either company are unlisted
- add up the taxable amounts and put the total figure in box 2.3.

Gather together the material you need such as:

- copies of share option certificates
- copies of exercise notices
- any correspondence or other explanatory information received from your employer about the share transaction
- information on the market value of the shares at the relevant dates
- records of the amount of Income Tax paid or tax accounted for under PAYE on any taxable event.

If you do not have this information, the company whose shares are involved or your employer may be able to help.

The amount of information you need to give on the Share Schemes Pages depends on the type of employee share scheme you benefit from, or the circumstances in which you receive shares or benefits relating to them. The notes below give details about tax rules and tell you which boxes you should complete.

If you have only exercised an option under an approved savings-related scheme, see page SN2 of these Notes.

The following pages enable you to work out the taxable amount of benefits under your employee share or share option scheme.

Tick the relevant boxes on Page S1 of the Share Schemes Pages if any shares are 'unlisted'. 'Unlisted' shares means all shares not listed on a recognised Stock Exchange.

Remember, the Share Schemes Pages do not cover the Capital Gains Tax which might be due when you sell shares (you should ask the Orderline for the Capital Gains Pages, if you disposed of assets during the year (including shares) worth more than £14,200 in total or your chargeable gains (including gains from shares) were more than £7,100). For further information, ask the Orderline for *Help Sheet IR287: Employee share schemes and Capital Gains Tax*.

Do not include dividends from shares received through employee share schemes. These should be included on page 3 of your Tax Return.

Where tax has been paid to the Inland Revenue under the PAYE system on a taxable event included in these Pages, ask the Orderline for *Help Sheet IR218: Shares acquired: Operation of Pay As You Earn (PAYE)*.

Employee share schemes

Some employee share schemes are approved by the Inland Revenue, others are not. The tax rules differ according to whether or not the scheme is approved.

■ **Approved share schemes**

There are three types of approved share schemes. If certain conditions are met, you will not be taxable on:

- the receipt of free shares
- the grant of an option to buy shares
- the exercise of an option to buy shares

under approved employee share schemes.

(Remember, though, you will still be taxable on any dividends and you might have to pay Capital Gains Tax when you sell your shares.)

The notes below tell you when you will be taxable.

■ **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 normally be deducted under PAYE. The trustees of the profit-sharing scheme, or your employer, will let you have details of the amount on which tax has been charged and how much tax has been deducted. **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 when you complete them.

Share options

■ **Approved savings-related share option schemes**

You need to include information about an option under one of these (Save As You Earn) schemes in the Share Schemes Pages **only** if you have exercised the option:

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

In this case you will be taxable on the difference between the market value of the shares at the time the option is exercised and the amount paid for the shares.

Example 1

1.1.98 You agree to save £100 per month for five years and you are granted an option over 3,000 shares in the parent company. The option price is £2 per share.

1.1.2000 The parent company sells the company you work for to another group. You are able to exercise the option up to the amount you have saved so far, through the savings scheme.

1.3.2000 You exercise the option using the £2,700 (27 months at £100) saved so far and buy 1,350 shares at £2 per share. The market value of the shares is £3 per share.

The taxable amount is:

• market value of shares bought	£3 x 1,350	=	£4,050
• minus price paid for shares	£2 x 1,350	=	<u>£2,700</u>
• taxable amount			£1,350

If you exercised an option in these circumstances, complete:

- **boxes 2.1 and 2.2** on Page S1, and **boxes 2.32 and 2.33** on Page S2, and
- **boxes 2.34, 2.35, 2.36, 2.37 and 2.40** (in the 'Exercise' column).

Then use Working Sheet 1 to calculate the taxable amount.

Working Sheet 1

Market value per share (box 2.40)	A £
Number of shares bought on exercise (box 2.36)	B
	box A x box B
Total market value of shares bought	C £
Option price per share (box 2.37)	D £
	box D x box B
Total price paid for shares	E £
	box C minus box E
Taxable amount (copy to box 2.3)	F £

If you have **not exercised** your approved scheme option but have received something for giving up the option or for not exercising the option, do not fill in the boxes set out above. Instead refer to the section '**Cancellation or release of options**' on page SN3.

Approved discretionary share option schemes

Approved discretionary share option schemes include:

- approved executive share option schemes, **and**
- approved company share option plans.

You need to include information about an option under one of these schemes in the Share Schemes Pages **only** if you have exercised the option, **and**:

- when you exercised the option the scheme was no longer approved, **or**
- when you exercised it, it was less than three years, or more than 10 years, after the date it was granted to you, **or**
- you exercised it 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.

In this case you will be taxable on the difference between the market value of the shares at the time you exercised the option and the amount paid for the shares.

Example 2

1.1.95 You are granted an option over shares in the company you work for.

1.1.97 You are granted a second option over 2,000 shares in the company. The option price is £3 per share.

1.3.98 You exercise the first option.

1.3.2000 You exercise the second option and buy 2,000 shares at £3 per share. The market value of the shares is £5 per share. The exercise of the first option gets relief from Income Tax. The exercise of the second option does not get tax relief because it is within three years of the exercise of the first option, and so it needs to be included in the Share Schemes Pages.

The taxable amount is:

- market value of shares bought $£5 \times 2,000 = £10,000$
- minus price paid for shares $£3 \times 2,000 = £6,000$
- **taxable amount** **£4,000**

If the exercise of an option under this scheme is taxable, fill in:

- **boxes 2.7, 2.8** on Page S1, **boxes 2.32, 2.33** on Page S2, **and**
- **boxes 2.34, 2.35, 2.36, 2.37, 2.38 and 2.40** (in the 'Exercise' column).

Then use Working Sheet 2 to calculate the taxable amount.

Working Sheet 2

Market value per share (box 2.40)	A £
Number of shares bought on exercise (box 2.36)	B
	box A x box B
Total market value of shares bought	C £
Option price per share (box 2.37)	D £
	box D x box B
Total price paid for shares	E £
Amount paid for option (box 2.38)	F £
	box C minus box E minus box F
Taxable amount (copy to box 2.9)	G £

If you have **not exercised** your approved scheme option but have received something for giving up the option, or for not exercising the option, do not fill in the boxes set out above. Instead, refer to the next section.

All share option schemes

- Cancellation or release of options

If you receive something in return for:

- transferring your option, **or**
- cancelling your option, **or**
- releasing your option, **or**
- otherwise not exercising your option,

you will have to pay Income Tax on the cash or value you receive. Leaflet *IR16: Share acquisitions by directors and employees*, available from the Orderline, gives more details.

You will be taxable on what you receive, whether or not the option was granted under an approved scheme.

Example 3

1.10.98 You are granted an option over 1,000 shares in the company you work for. You pay £1 for the option.

1.2.2000 You receive £2,500 in return for the option being cancelled.

The taxable amount is:

- amount received for release of option = £2,500
- minus amount paid for option = £1
- **taxable amount** **£2,499**

If any of the above circumstances apply to you, complete:

- **boxes 2.4 and 2.5** (approved savings-related share options), **or** **boxes 2.10 and 2.11** (approved discretionary share options), **or** **boxes 2.19 and 2.20** (unapproved share options)
- **boxes 2.32 and 2.33**
- **boxes 2.34, 2.38 and 2.41** (in the 'Cancellation/Release' column).

Then use Working Sheet 3 to calculate the taxable amount.

Working Sheet 3

Amount received (box 2.41)	A £
Amount paid for option (box 2.38)	B £
	box A minus box B
Taxable amount	C £

Then enter the taxable amount **C** at:

- **box 2.6** (approved savings-related share options), **or**
- **box 2.12** (approved discretionary share options), **or**
- **box 2.21** (unapproved share options).

If PAYE has been operated on any of the amount received in box A above, you will also need to enter the amount on which PAYE has been operated in box 2.31B.

● Income Tax paid on the grant of your option

If you paid Income Tax on the grant of your option, the amount paid can reduce the amount of Income Tax to pay (if any) on the taxable amount C in Working Sheet 3 on page SN3. The tax credit relief cannot exceed the tax to pay on the taxable amount C.

If you **do not** want to calculate your tax, enter the amount of Income Tax paid on the grant of your option as tax credit relief in the 'Additional information' box on Page S1.

If you **do** want to calculate your tax, you must decide how much tax is payable on the taxable amount C. To do this, refer to your Tax Calculation Guide. If you need help, ask your Inland Revenue office or tax adviser.

If the Income Tax paid on the grant of your option is less than the tax to pay on the taxable amount C, enter the amount of Income Tax paid on the grant of your option as tax credit relief in the 'Additional information' box on Page S1 **and** in box C11.13 in the Working Sheet in the Tax Calculation Guide.

If the Income Tax paid on the grant of your option is equal to, or greater than, the tax to pay on the taxable amount C, enter the tax to pay on the taxable amount C as tax credit relief in the 'Additional information' box on Page S1 **and** in box C11.13 in the Working Sheet in the Tax Calculation Guide.

If you have completed the Foreign Pages, the tax credit relief figure should be **added** to the figure copied from box 6.9 of the Foreign Pages to box C11.13.

■ *Unapproved share option schemes*

If the scheme under which it was granted was not approved you may be taxable on both:

- the grant of a share option, **and**
- the exercise of a share option.

● Grant of a share option

You need to include the grant of a share option on Page S1 of the Share Schemes Pages **only if**:

- you can exercise the option to buy shares more than ten years after the date it was granted to you, **and**
- the option price (at which you can buy the shares) is less than the market value of the shares at the date the option was granted to you.

In this case you will be taxable on the value of the option minus the price, if any, that you paid for it. The minimum value placed on the option by the special tax rules is the difference between the option price and the market value of the shares. You should use this figure unless you think the option had a higher value.

The amount of tax you pay on the grant of your option can be deducted from the tax you have to pay (if any) when your option is exercised, or when you receive something in return for:

- transferring your option, **or**
- cancelling your option, **or**
- releasing your option, **or**
- otherwise not exercising your option.

You will need to keep a record of the amount of tax paid on the grant of your option to complete the Share Scheme Pages of the Tax Return for the year in which you exercise your option, or receive something in return for transferring, cancelling, releasing or otherwise not exercising your option. Leaflet *IR16: Share acquisitions by directors and employees*, available from the Orderline, gives more details.

Example 4

1.10.99 You are granted an option over 1,000 shares in the company you work for. The option entitles you to buy the shares between 1.10.2002 and 30.9.2011 (three to twelve years later). The market value of the shares is £3 each. The option price is £2 per share. You pay £1 for the option.

The taxable amount is:

- | | | |
|---|---|--------------|
| • value of option 1,000 x £1 (£3 less £2) | = | £1,000* |
| • minus paid for option | = | <u>£1</u> |
| • taxable amount | | £ 999 |

* this is the minimum value placed on the option at 1.10.1999.

If this applies to you complete:

- **boxes 2.13, 2.14** on Page S1, **boxes 2.32, 2.33** on Page S2, **and**
- **boxes 2.34, 2.36, 2.37, 2.38** and **2.39** (in the 'Grant' column).

Then use Working Sheet 4 to calculate the taxable amount.

Working Sheet 4

Market value per share (box 2.39)	A £
Option price per share (box 2.37)	B £
	box A minus box B
	C £
Number of shares (box 2.36)	D
	box C x box D
Value of option*	E £
Amount paid for option (box 2.38)	F £
	box E minus box F
Taxable amount (copy to box 2.15)	G £

* This is the minimum value placed on the option. If you think the value of the option was higher enter your valuation in box E.

● Exercise of a share option

You need to include the exercise of any option from unapproved schemes on Page S1 of the Share Schemes Pages.

In this case you will be taxed on the difference between the market value of the shares at the time you exercised the option and the amount you paid for the shares (including the cost, if any, of the option).

Example 5

1.10.98 You are granted an option over 1,000 shares in the company you work for. The option price is £2 per share. You pay £1 for the option.

1.2.2000 You exercise the option and buy 1,000 shares at £2 per share. The market value of the shares is £5 per share.

The taxable amount is:

• market value of shares bought	£5 x 1000	=	£5,000
• minus price paid for shares	£2 x 1000	=	£2,000
			£3,000
• minus amount paid for option			£1
• taxable amount			£2,999

If you have exercised an option under an unapproved scheme complete:

- boxes 2.16, 2.17 on Page S1, boxes 2.32, 2.33 on Page S2, and
- boxes 2.34, 2.35, 2.36, 2.37, 2.38 and 2.40 (in the 'Exercise' column).

Then use Working Sheet 5 to calculate the taxable amount.

Working Sheet 5

Market value per share (box 2.40)	A £
Number of shares (box 2.36)	B
Total market value of shares bought	C £ <small>box A x box B</small>
Option price paid for shares (box 2.37)	D £
Total price paid for shares	E £ <small>box D x box B</small>
Amount paid for option (box 2.38)	F £
Taxable amount	G £ <small>box C minus box E minus box F</small>

Enter the taxable amount G in box 2.18. If PAYE has been operated on this exercise already, you will also need to enter the amount on which PAYE has been operated in box 2.31B.

Share options – residence issues

If you have been granted or exercised an option, there are some occasions when the general rules do not apply.

If as a consequence of:

- your residence status, and
 - the place you performed the duties of your employment,
- you are not taxed in the UK on all the income from your employment (*Help Sheet IR211: Employment - residence and domicile issues*, available from the Orderline, gives further details), any

option granted to you by reason of that employment may be subject to special rules. For options granted to you in such circumstances, you still need to complete Working Sheet 4 on page SN4. For options exercised by you in such circumstances, you need to follow the guidance in *Help Sheet IR216: Shares as benefits*. Further details are also in leaflet *IR16: Share acquisitions by directors and employees*. Both IR216 and IR16 are available from the Orderline.

● Income Tax paid on the grant of your option

If you paid Income Tax on the grant of your option, the amount paid can reduce the amount of Income Tax to pay (if any) on the taxable amount G. The tax credit relief cannot exceed the tax to pay on the taxable amount G.

If you **do not** want to calculate your tax, enter the amount of Income Tax paid on the grant of your option as tax credit relief in the 'Additional information' box on Page S1.

If you **do** want to calculate your tax, you must decide how much tax is payable on the taxable amount G. To do this, refer to your Tax Calculation Guide. If you need help, ask your Inland Revenue office or tax adviser.

If the Income Tax paid on the grant of your option is less than the tax to pay on the taxable amount G, enter the amount of Income Tax paid on the grant of your option as tax credit relief in the 'Additional information' box on Page S1, and in box C11.13 in the Working Sheet in the Tax Calculation Guide.

If the Income Tax paid on the grant of your option is equal to, or greater than, the tax to pay on the taxable amount G, enter the tax to pay on the taxable amount G as tax credit relief in the 'Additional information' box on Page S1 and in box C11.13 in the Working Sheet in the Tax Calculation Guide.

If you have completed the Foreign Pages, the tax credit relief figure should be **added to** the figure copied from box 6.9 of the Foreign Pages to box C11.13.

If you **have not exercised your option**, but have received something for giving up the option or for not exercising the option, do not fill in the boxes set out above. Instead refer to the section '**Cancellation or release of options**' on page SN3.

Shares acquired

You will be taxed on shares (or interests in shares) you get free or cheaply by reason of your employment.

- Shares acquired from your employment

boxes 2.22 to 2.24 Shares can be acquired from your employment in a variety of circumstances. If you have received shares, or interests in shares, free or cheaply from your employment, ask the Orderline for *Help Sheet IR219: Shares acquired from your employment* to help you to complete Pages S1 and S2 of the Share Schemes Pages. If PAYE has been operated you may also need *Help Sheet IR218: Shares acquired: Operation of Pay As You Earn (PAYE)*, from the Orderline.

- Shares subject to risk of forfeiture

boxes 2.22 to 2.30 If you receive shares from your office or employment which can become forfeit if certain conditions are not met, you may be taxed when:

- you receive the shares, if the risk of forfeiture can continue more than five years after the date of receipt, **or**
- the shares are disposed of before the risk of forfeiture is lifted, **or**
- the conditions are met and the risk of forfeiture is lifted.

If this applies to you, ask the Orderline for *Help Sheet IR219: Shares acquired from your employment* to help you to complete the Share Schemes Pages. If PAYE has been operated you may also need *Help Sheet IR218: Shares acquired: Operation of Pay As You Earn (PAYE)*, from the Orderline.

- Shares as benefits

boxes 2.25 to 2.27 If you acquire shares for less than their market value, and the benefit from doing so is not otherwise chargeable to Income Tax, the amount of the undervalue is treated as a loan. If you acquire 'partly paid' shares you are treated as if you had received an interest-free loan equal to the difference between the market value of fully paid shares and the sum actually paid. If this applies to you, ask the Orderline for *Help Sheet IR216: Shares as benefits*.

If your employer has enabled you to sell shares for more than their market value, the benefit to you will be included on your P11D or other information supplied by your employer. You should have entered the figure in box 1.22 of your Employment Pages.

- Post-acquisition charges

boxes 2.28 to 2.30 If you acquire shares, or an interest in shares, by reason of your employment you may be taxed later when:

- rights or restrictions attached to any shares are altered, **or**
- shares in certain subsidiary companies are kept for seven years, or if sold earlier, when the shares are sold and they have increased in value since you acquired them, **or**
- 'special benefits' are received by virtue of your ownership of shares, **or**
- shares convert to another class of shares because of conversion rights which come from your office or employment.

If this applies to you ask the Orderline for *Help Sheet IR217: Shares acquired: post-acquisition charges*.

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