

- 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 shares either directly or from the exercise of a share option, or**
- **you have received something for the cancellation or release of a share option, and**
- **tax is due in respect of those shares or the value received, and**
- **some or all of that tax has been paid to the Inland Revenue under the PAYE system.**

**It also tells you what to do if you paid any of your employer's NICs when you exercised a share 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 and approved discretionary 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 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 or Approved discretionary share option schemes' to calculate the taxable amount.

##### • Cancellation or release of a share option

Your employer will operate PAYE on any taxable amount you receive in the form of cash or 'readily convertible assets' (see next column), 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 share option schemes - Cancellation or release of options' in case the tax due is different from the tax accounted for under PAYE.

— Approved all employee share ownership 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 all-employee share ownership plans' in case the tax due is different from the tax accounted for under PAYE.

### SHARES PROVIDED OTHER THAN UNDER APPROVED SHARE SCHEMES

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

Shares are **readily convertible assets** if:

- the shares can be sold or otherwise realised on a recognised investment exchange, such as the Stock Exchange, the New York Stock Exchange, **or**
- trading arrangements are in place in respect of 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.

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 all-employee share ownership 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.

#### — 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 readily convertible assets. PAYE will be operated at the time the shares are acquired except where there is only the special tax charge on shares that are subject to a risk of forfeiture (see page 2 and page SN8 of the Share Scheme 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 Shares' section of *Help Sheet IR219: Shares acquired from your employment* (available from the Orderline) in case the tax due is different from the tax accounted for under PAYE.

#### — Restricted shares subject to forfeiture

Your employer will operate PAYE when the risk of forfeiture is lifted or when the shares are disposed of before the risk is lifted if the shares were 'readily convertible assets' (as explained on page 1).

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 4 in the 'Restricted Share Schemes - Shares subject to forfeiture' section of *Help Sheet IR217: Shares 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 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 readily convertible 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. 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 share option**' in case the tax due is different from the tax accounted for under PAYE.

#### • Cancellation or release of a share option

Your employer will operate PAYE on any taxable amount you receive in the form of cash or 'readily convertible assets', 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 share option schemes - Cancellation or release of options' in case the tax due is different from the tax accounted for under PAYE.

## EMPLOYERS' NATIONAL INSURANCE CONTRIBUTIONS ON SHARE OPTION GAINS

Your employer will have to pay employer's (Secondary) NICs on any gain made when you exercise a share option if the option was granted to you after 5 April 1999 and the shares 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 with your employer so that you paid some or all of the Secondary NICs on the share 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 share option.

### Example

An employee receives a 'non-approved' share option on 1 October 1999 and exercises it on 1 February 2001, 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 12.2% of £1,000 = £122.

Employee pays the employer £122 on 7 December 2000.

Income tax is collected through PAYE.

PAYE is operated on £1,000 minus £122 = £878.

Your employer will operate PAYE on the taxable amount after 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 share 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.

**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 page 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) NIC paid in calculating the tax on the share option gain.

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