

• Shares as benefits

This Help Sheet gives you information to help you fill in box 2.36 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 (this may include shares acquired by the exercise of a share option granted in a year in which you were Not Resident or Ordinarily Resident, see leaflet *IR16: Share acquisitions by directors and employees*, available from the Orderline), **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 Inland Revenue 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. The amount of the under-value is reduced to the extent that any of it is otherwise chargeable to tax.

Example 1

1.6.2002 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

1.6.2003 Second instalment paid £2,500
 Amount of loan reduced to £5,000

1.6.2004 Third instalment paid £2,500
 Amount of loan reduced to £2,500

1.6.2005 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

1.6.2002 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

5.4.2003 Notional loan £7,500
 Average amount of loan during year $£7,500 + £7,500 \div 2 = £7,500$

Interest for whole year $£7,500 \times \text{official rate of interest (6.25\%)} = £468$

Number of complete tax months loan existed 10

Cash equivalent $£468 \times \frac{10}{12}$ equals:

2002-03 taxable benefit **£390**

If this applies to any of your shares complete:

- boxes 2.34 and 2.35 on Page S1 of the Share Schemes Pages
- boxes 2.69 and 2.70 on Page S3 of the Share Schemes Pages
- boxes 2.71 to 2.74 in the 'Shares acquired' column on Page S3 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 £
Amount you paid for each share when you acquired them	B £
Under-value per share	C box A minus box B £
Number of shares	D
Original under-value/ notional loan	E $\text{box C} \times \text{box D}$ £
If shares were acquired before 6.4.2002, total of any further amount paid for them before 6.4.2002	F £
Notional loan at 6.4.2002 (or date shares acquired, if later)	G box E minus box F £
Total of any further amounts paid during the year (2002-03)	H £
Notional loan at 5.4.2003 (or date shares sold, if earlier)	I box G minus box H £
Average amount of notional loan	J $\frac{\text{box G} + \text{box I}}{2}$ £
Official rate of interest (%)	K
Interest for whole year	L $\text{box J} \times \text{box K}$ £
Number of complete tax months (6th of month to 5th of following month) throughout which loan existed in tax year	M
Taxable amount (the cash equivalent - copy to box 2.36)	N $\text{box L} \times \left(\frac{\text{box M}}{12}\right)$ £

Interest relief on a loan used to buy shares

You can claim tax relief for interest paid on a 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 a loan, copy the taxable amount of the benefit in box N of Working Sheet 1 to box 15.1 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, **or**
- the amount outstanding on partly paid shares is released or written off.

In both these cases the taxable amount is the amount of the under-value (notional interest-free loan) which you have not paid up by the time you transfer or sell the shares, or when the amount outstanding is released.

Enter the taxable amount in box 2.36 on Page S1 of the Share Schemes Pages.

Example 3		
6.4.2002	Value of shares when acquired	£10,000
1.6.2002	Total amounts paid for shares	<u>£2,000</u>
	Under-value/amount of loan	£8,000
1.10.2002	Shares sold	
	2002-03 Taxable amount	£8,000

If this applies to any of your shares complete:

- boxes 2.34 and 2.35 on Page S1 of the Share Schemes Pages
- boxes 2.69 and 2.70 on Page S3 of the Share Schemes Pages
- boxes 2.71 to 2.74 in the 'Shares acquired' column on Page S3 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	A £ <input type="text"/>
Amount you paid for each share when you acquired them	B £ <input type="text"/>
	box A minus box B
Under-value per share	C £ <input type="text"/>
Number of shares	D <input type="text"/>
	box C x box D
Notional loan	E £ <input type="text"/>
Total of any further amounts paid for the shares before you sold or transferred them or ceased to be obliged to pay any amount of the under-value	F £ <input type="text"/>
	box E minus box F
Taxable amount (copy to box 2.36)	G £ <input type="text"/>

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

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