

- Shares acquired: post-acquisition charges

**This Help Sheet gives you information to help you fill in box 2.39 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 may 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
- the gain on any conversion of the shares.

## CONDITIONAL SHARE SCHEMES - SHARES SUBJECT TO FORFEITURE

(This section does not apply to shares that you obtain under an approved Share Incentive Plan, which are subject to forfeiture.)

Under these schemes you may acquire shares which may be forfeit at some future time. If the shares can be forfeited during a period of more than five years, you will be taxed on their market value in the year when awarded, and on any increase in value in the year when the forfeiture condition is lifted.

If the shares cannot be forfeit more than five years from the date they were acquired you will be taxed when the risk of forfeiture is lifted, or when the shares are disposed of before the risk of forfeiture is lifted and not at the time that the shares are acquired. You will be taxed on the value of the shares at the time the risk of forfeiture is lifted or, if earlier, you sell the shares, *minus* any amount you have paid for the shares and any amount on which you paid Income Tax when you acquired them.

If you have acquired shares on or after 17 March 1998 and forfeiture has been lifted in the year to 5 April 2003, this applies to you and you should complete:

- boxes 2.37 and 2.38 on Page S1
- boxes 2.69 and 2.70 on Page S3, **and**
- boxes 2.71 to 2.74 in the 'Post-acquisition charge' column on Page S3 of the Share Schemes Pages.

Then use Working Sheet 1, opposite, to calculate the taxable amount.

### Working Sheet 1

Market value per share at date forfeiture lifted (box 2.74)	<b>A</b> £
Number of shares (box 2.72)	<b>B</b>
Total market value of shares at date forfeiture lifted	<b>C</b> £ <small>box A x box B</small>
Amount paid per share (box 2.73)	<b>D</b> £
Total amount paid for shares	<b>E</b> £ <small>box B x box D</small>
Any amount on which you paid Income Tax when you acquired the shares	<b>F</b> £
<b>Taxable amount</b> (copy to box 2.39)	<b>G</b> £ <small>box C minus (box E + box F)</small>

If PAYE has been operated on this amount already, you will also need to enter in box 2.41 the amount on which PAYE has been operated.

If forfeiture has been lifted in the year to 5 April 2003 on shares which you acquired **before 17 March 1998**, you should not enter any amount in this year's Return, but let your Inland Revenue office know the full circumstances in which you acquired the shares as there may be tax to be paid for the year in which you first acquired the shares.

## CONVERTIBLE SHARES

If you acquired convertible shares **on or after 17 March 1998**, you will be taxed for the year the shares are converted on the difference between:

- the value of the new shares after conversion, **and**
- the amount paid for the old shares and any amounts on which you have already been taxed in respect of those shares, **unless**
- the conversion is a conversion of one class into one other class only **and** all of the shares of the same class as yours are similarly converted, **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 holding of that class of shares.

This does not affect the tax you have to pay when you acquired the convertible shares (*Help Sheet IR219: Shares acquired from your employment*, available from the Orderline, gives more details).

A tax charge arises each time there is a conversion.

If this applies to any of your shares complete:

- boxes 2.37, 2.38 on Page S1
- boxes 2.69, 2.70 on Page S3, **and**
- boxes 2.71, 2.72, 2.74 and 2.75 in the 'Post-acquisition charge' 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 per share after conversion	<b>A</b> £
Price paid per share plus any amount per share already taxed	<b>B</b> £
Increase per share	<b>C</b> $\text{box A minus box B}$ £
Number of shares	<b>D</b>
<b>Taxable amount</b> (copy to box 2.39)	<b>E</b> $\text{box C x box D}$ £

If PAYE has been operated on any of the taxable amount in box E already, you will also need to enter in box 2.41 the amount on which PAYE has been operated.

## 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.

However, where a restriction is lifted at the end of a pre-determined period there will be no charge to Income Tax arising.

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

### Example 1

1 October 1999	You acquire 1,000 shares in the company you work for. The shares restrict the right of employees to receive dividends.	
1 October 2002	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
	<b>2002-03 taxable amount (1,000 x £1)</b>	<b>£1,000</b>

If this applies to any of your shares complete:

- boxes 2.37 and 2.38 on Page S1 **and**
- boxes 2.69 and 2.70 on Page S3 **and**
- boxes 2.71, 2.72, 2.74 and 2.75 in the 'Post-acquisition charge' column on Page S3 of the Share Schemes Pages

then use Working Sheet 3 to work out the taxable amount.

### Working Sheet 3

Market value of each share after restrictions altered	<b>A</b> £
Market value of each share before restrictions altered	<b>B</b> £
Increase per share	<b>C</b> $\text{box A minus box B}$ £
Number of shares	<b>D</b>
<b>Taxable amount</b> (copy to box 2.39)	<b>E</b> $\text{box C x box D}$ £

## 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 were 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 December 1995 You acquire 1,000 shares in a dependent subsidiary company, market value £2 each.

1 December 2002 You still hold the shares, market value £5 each.

Increase in value in seven year period is £3 a share (£5 *minus* £2).

**2002-03 taxable amount (1,000 x £3) £3,000**

Your employer should be able to 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 2.37 and 2.38 on Page S1 **and**
- boxes 2.69 and 2.70 on Page S3 **and**
- boxes 2.71, 2.72 and 2.75 in the 'Post-acquisition charge' column on Page S3, of the Share Schemes Pages.

Then use Working Sheet 4 opposite, to work out the taxable amount to go in box 2.39.

**Working Sheet 4**

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** £

Increase per share

**C** box A minus box B £

Number of shares

**D**

**Taxable amount**  
(copy to box 2.39)

**E** box C x box D £

**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 2.37 and 2.38 on Page S1
- boxes 2.69 and 2.70 on Page S3
- boxes 2.71, 2.72 and 2.75 in the 'Post-acquisition charge' column on Page S3 of the Share Schemes Pages.

Then use Working Sheet 5 to work out the taxable amount to go in box 2.39.

**Working Sheet 5**

Value of special benefit received for each share

**A** £

Number of shares

**B**

**Taxable amount**  
(copy to box 2.39)

**box A x box B**  
**C** £

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