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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. There is more information on Share Schemes on our website www.inlandrevenue.gov.uk/shareschemes

- IR97: *Approved Save As You Earn share option schemes. An outline for employees*
- IR101: *Approved Company Share Option Plans. An outline for employees*
- IR2002: *Share Incentive Plans - A guide for employees*
- IR2006: *Enterprise Management Incentives - A guide*
- IR216: *Securities as benefits*
- IR217: *Securities acquired: post-acquisition charges*
- IR218: *Employees' shares: Operation of Pay As You Earn (PAYE) and National Insurance contributions (NICs)*
- IR219: *Securities acquired from your employment*
- IR287: *Employee share and security 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 because of your employment. **With effect from certain dates in 2003-04, tax will also arise on employment-related securities (which include shares) and options to acquire these securities. A definition and list of employment-related securities can be found under the heading 'Securities acquired' on page SN7. The relevant dates are shown in the respective Help Sheets.**

Each taxable occasion is a 'taxable event'. 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. **You must complete a separate copy of Pages S2 or S3 of the Share Schemes Pages for each taxable 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.)

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 **Pages S2 or S3** 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, box 2.77
- 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 will need such as:

- copies of option certificates
- details of the amount (if any) you paid to buy the option
- copies of exercise notices
- details of the amount you paid to buy the employment-related securities (exercise price or option price)
- copies of EMI share option agreements and unique option references
- any correspondence or other explanatory information received from your employer about the transaction
- information on the market value of the employment-related securities at the relevant dates
- records of the amount of Income Tax paid or tax accounted for under PAYE on any taxable event
- records of the amount of any employer's NICs paid by you on any taxable amount.

If you do not have this information, the company whose securities 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 employment-related securities 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 SN3 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', that is, all shares not listed on a recognised Stock Exchange.

The Share Schemes Pages do not cover the Capital Gains Tax which might be due when you sell shares. If:

- you disposed of assets during the year (including shares) worth more than £32,800 in total, **or**
- your chargeable gains (including gains from shares) were more than £8,200

ask the Orderline for the Capital Gains Pages, or for further information, *Help Sheet IR287: Employee share and security schemes and Capital Gains Tax.*

Do not include dividends from shares received through employee share schemes. These should be included in Question 10 on page 3 or Question 6 on page 2 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: Employees' shares: Operation of Pay As You Earn (PAYE) and National Insurance contributions (NICs)*.

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 four types of approved share schemes, and the Enterprise Management Incentive. If certain conditions are met, you will not be taxable on:

- your purchase of shares
- your receipt of free shares
- the grant of an option to buy shares
- your exercise of an option to buy shares
- your shares ceasing to be subject to an Approved Share Incentive Plan.

(You may still be taxable on any dividends and you may 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, your employer will normally deduct tax 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 taken off. **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.

■ Approved Share Incentive Plans

Include information about shares you bought, or were awarded to you under one of these plans **only** if the shares cease to be subject to the plan:

- within five years of you buying or being awarded them, **and**
- for a reason that does **not** fall within one of the exemptions below.

The exemptions include shares ceasing to be subject to the plan when the employment, by reason of which you were eligible to take part in the plan, ceases:

- because of injury or disability
- on redundancy
- by reason of a transfer to which the Transfer of Undertakings (Protection of Employment) Regulations 1981 apply
- by reason of a change of control or sale of the company out of the group
- by reason of retirement on or after reaching the retirement age specified in the plan
- on death.

Do not include dividend shares (shares, bought with dividends arising on other plan shares, which are reinvested in the approved plan). If dividend shares cease to be subject to the plan

- within three years of their acquisition, **and**
- for a reason that does **not** fall within one of the exemptions above

the amount of the dividend used to buy the shares should be included in Question 10 on page 3 of your Tax Return for the year they cease to be subject to the plan.

Include in Question 6 on page 2 of your Tax Return dividends from overseas companies used to buy shares for the year they cease to be subject to the plan.

If the shares are subject to forfeiture, there is no charge to Income Tax when they become forfeit.

The amount chargeable to Income Tax depends on how long the shares were held in the plan. If the shares were held for less than 3 years the taxable amount is equal to their market value on the date they ceased to be subject to the plan.

Example 1a

2 October 2003: you are awarded 400 shares in your company at a time when the market value is £5 per share. These shares are not subject to forfeiture.

9 April 2004: you leave the company (for a reason other than one of the exemptions aside) and the 400 shares cease to be subject to the plan. The market value of the shares is £6 per share.

The taxable amount is:

Market value of shares when they cease to be subject to the plan (400 x £6) = £2,400.

If the shares were in the plan for at least 3 years but less than 5, the taxable amount is the market value of the shares at the date when they ceased to be subject to the plan or, if lower, their market value at the date they were awarded or bought for you.

Example 1b

You acquired the following partnership shares under the plan 20 shares @ £5 each on 1 November 2001

2 April 2005: you leave the company (for a reason other than one of the exemptions aside) and the shares cease to be subject to the plan. The market value of the shares is £6 per share.

The taxable amount is worked out as follows:

20 shares were held in the plan for more than 3 years but less than 5. You are taxed on the lowest market value of when the shares were bought (£5) or when the shares leave the plan (£6).

The taxable amount is:

Market value of shares at the date of the award (20 x £5) = £100

If your shares cease to be subject to the plan in the circumstances set out in Examples 1a or 1b, fill in:

- boxes 2.28 and 2.29 on Page S1
- boxes 2.64 to 2.68 on Page S3.

Then use Working Sheet 1 to calculate the taxable amount.

Working Sheet 1

Market value per share (box 2.67) or if lower the market value at the date of the award

A £

Number of shares ceasing to be subject to the plan (box 2.68)

B

Taxable amount (copy to box 2.30)

box A x box B
C £

If PAYE has been operated on any amount entered in box C above, enter in box 2.41 the amount on which PAYE has been operated.

Securities options

You only need fill in one copy of Page S1 of the Share Schemes Pages – it is a summary of all your taxable events in the year. Any entries of taxable amounts on Page S1 should also be included in total boxes 2.40 and 2.42.

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

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 2

1 January 2003: 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 January 2005: 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 March 2005: you exercise the option using the £2,600 (26 months at £100) saved so far and buy 1,300 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 1,300 =	£3,900
• <i>minus</i> price paid for shares	£2 x 1,300 =	<u>£2,600</u>
Taxable amount		£1,300

If you exercised an option in these circumstances, fill in:

- boxes 2.1 and 2.2 on Page S1
- boxes 2.43 and 2.44 on Page S2, **and**
- boxes 2.45, 2.46, 2.47, 2.48 and 2.51 (in the 'Options exercised' column).

Then use Working Sheet 2 to calculate the taxable amount.

Working Sheet 2

Market value per share (box 2.51)	A £
Number of shares bought on exercise (box 2.47)	B
	box A x box B
Total market value of shares bought	C £
Option price per share (box 2.48)	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 it up, or for not exercising it, do not fill in the boxes set out above. Instead, refer to the section '**Assignment or release of options**' on page SN6.

■ **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 did so the scheme was no longer approved, **or**
- it was less than three years after the date it was granted to you and you did not exercise it within six months of the relevant event because of injury, disability, redundancy (as defined by law) and retirement on or after reaching the age specified in the Plan rules (which must not be less than 55), **or**
- it was more than 10 years after the date of the grant.

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 3

1 January 2003: you are granted an option over 2,000 shares in the company you work for. The option price is £3 per share.

1 March 2005: you exercise the option. The market value of the shares at this date is £5 per share. Tax relief is not available because the exercise of the option is within three years of the grant of the option, so you will need to include it in the Share Schemes Pages.

The taxable amount is:

• market value of shares bought	£5 x 2,000 =	£10,000
• <i>minus</i> price paid for shares	£3 x 2,000 =	<u>£6,000</u>
Taxable amount		£4,000

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

- boxes 2.7 and 2.8 on Page S1
- boxes 2.43 and 2.44 on Page S2, **and**
- boxes 2.45, 2.46, 2.47, 2.48, 2.49 and 2.51 (in the 'Options exercised' column).

Then use Working Sheet 3 to calculate the taxable amount.

Working Sheet 3

Market value per share (box 2.51)	A £
Number of shares bought on exercise (box 2.47)	B
	box A x box B
Total market value of shares bought	C £
Option price per share (box 2.48)	D £
	box D x box B
Total price paid for shares	E £
Amount, if any, paid for grant of option (box 2.49)	F £
	box C minus box E minus box F
Profit on option exercise	G £
Employer's NICs, if any, paid by you on exercise of the option	H £
	box G minus box H
Taxable amount (copy to box 2.9)	I £

If PAYE has been operated on any of the amount entered in box I above, enter in box 2.41 the amount on which PAYE has been operated. Your employer will let you have details (included in your P60, or P45(Part 1A) if you are a former employee) of this amount and of how much tax has been accounted for. Include these amounts in boxes 1.8 and 1.11 in the Employment Pages.

If you have **not exercised** your approved scheme option but have received something for giving it up, or for not exercising it, do not fill in the boxes set out above. Instead, refer to the section '**Assignment or release of options**' on page SN6.

■ Enterprise Management Incentive (EMI) options

Include information about an option under the Enterprise Management Incentive provisions in the Share Scheme Pages **only if there is a tax charge on exercise**. There may be a tax charge on exercise in the following circumstances:

- if the price you paid for a share under the option was less than the market value of a share on the date the option was granted,
- if a disqualifying event (see below) occurred more than 40 days before the day you exercised the option.

The examples and working sheets that follow explain how to complete your Tax Return if either or both of these situations apply.

The disqualifying events are:

1. the company whose shares are the subject of the option becoming a 51% subsidiary of another company, or otherwise coming under the control of another company or other person connected with the company unless you are granted a qualifying replacement option within six months of this event
2. the company ceasing to meet the trading activities requirement
3. you ceasing to be an employee of the company or a qualifying subsidiary, or ceasing to be required to spend 25 hours a week or at least 75% of your working time, or no longer spending 25 hours a week or 75% of your working time in such employment
4. the terms of the option being varied causing the market value of the shares subject to the option to be increased or the requirements of Schedule 14 Finance Act 2000 not to be met
5. the share capital of the company being varied without prior Inland Revenue approval
6. the conversion of the shares into a different class of shares not in accordance with Section 538 Income Tax (Earnings and Pensions) Act 2003
7. the grant of an option under an Inland Revenue approved discretionary share option scheme resulting in your holding Enterprise Management Incentive (EMI) options and discretionary share option scheme options over shares with a market value (as determined at the date of grant of each option) in excess of £100,000
8. the company or if it is the parent company of a group, any group company, where the company was a qualifying company only because of preparing to carry on a qualifying trade, ceasing such preparations or failing to commence carrying on the qualifying trade within two years of the date the option was granted.

Example 4: Exercise of discounted option

1 September 2004: you are granted an EMI option over 50,000 shares at a price of 50p per share. The market value of a share at this date was £1. You did not pay anything for the grant of this option.

5 November 2004: you exercise the option and buy 50,000 shares. The market value remains £1 per share. You pay employer's NICs of £3,200.

The taxable amount is:

Market value of shares at date of grant	
50,000 x £1	= £50,000
minus price you paid for the shares	
50,000 x 50p	= <u>£25,000</u>
	£25,000
minus employer's NICs paid at time of exercise	<u>£3,200</u>
Taxable amount	£21,800

If the market value of the shares at the date of exercise was less than the market value at the date of grant, the taxable amount is restricted to the difference between the market value at the date of exercise and the amount paid for the shares, less any employer's NICs paid by you.

If you have exercised an EMI option which was granted at a discount complete:

- boxes 2.13 and 2.14 on Page S1
- boxes 2.53 and 2.54 on Page S2, and
- boxes 2.55, 2.57 to 2.60 and 2.62 in the 'Options exercised' column.

Then use Working Sheet 4 to calculate the taxable amount.

Working Sheet 4: Exercise of discounted option

Market value per share at date the option was granted (box 2.60)	A £
Number of shares bought by exercise of the option (box 2.57)	B
Total market value, at date of grant, of shares bought	C £ <small>box A x box B</small>
Market value per share at date the option was exercised (box 2.62)	D £
Total market value, at date of exercise of shares bought	E £ <small>box B x box D</small>
Exercise price: option price per share (box 2.58)	F
Total price paid for shares	G £ <small>box B x box F</small>
Amount paid, if any, for grant of option (box 2.59)	H £
Profit by reference to market value at date of grant (if no profit enter '0')	I £ <small>box C minus box G</small>
Overall profit by reference to market value at date of exercise (if no profit enter '0')	J £ <small>box E minus box G minus box H</small>
Lesser of box I and box J	K £
minus employer's NICs paid by you on exercise	L £
Taxable amount (copy to box 2.15)	M £ <small>box K minus box L</small>

If PAYE has been operated on any of the amount entered in box M above, enter in box 2.41 the amount on which PAYE has been operated.

Example 5: Exercise of option after a disqualifying event

1 September 2004: you are granted an EMI option over 50,000 shares at a price of £1 per share. The market value at this date is £1. You did not pay anything for the option.

1 February 2005: a disqualifying event occurs and at this time the market value of a share is £2.

31 March 2005: you exercise the option and buy 50,000 shares. The market value of a share is £3. You pay employer's NICs of £6,400.

The taxable amount is:

Market value of shares when bought	
50,000 x £3	= £150,000
minus market value of shares on disqualifying event	
50,000 x £2	= <u>£100,000</u>
	£50,000
minus employer's NICs paid by you on exercise	<u>£6,400</u>
Taxable amount	£43,600

If you have exercised an EMI option more than 40 days after a disqualifying event, and the shares have risen in value after the disqualifying event, complete:

- boxes 2.13 and 2.14 on Page S1
- boxes 2.53 and 2.54 on Page S2
- boxes 2.55 to 2.59, 2.61 and 2.62 on Page S2 (in the 'Options exercised' column).

Then use Working Sheet 5 to calculate the taxable amount.

If the shares you acquired under the option have not increased in value since the disqualifying event, there will be no tax to pay on exercise - you do not need to complete this working sheet. If the option was granted at a discount there may be tax to pay. Use Working Sheet 4 then Working Sheet 6.

Working Sheet 5: Exercise of option after a disqualifying event

Market value per share at date of exercise (box 2.62)	A £
Number of shares you bought by exercise of option (box 2.57)	B
Total market value, at date of exercise, of shares bought	C £ $\text{box A} \times \text{box B}$
Market value per share at date of disqualifying event (box 2.61)	D £
Total market value of shares at time of disqualifying event	E £ $\text{box B} \times \text{box D}$
Increase in value of shares between disqualifying event and exercise (if no increase in value, enter '0')	F £ $\text{box C} \text{ minus } \text{box E}$
Exercise price: option price per share (box 2.58)	G £
Total price you paid for shares	H £ $\text{box B} \times \text{box G}$
Amount, if any, paid for grant of option (box 2.59)	I £
Overall profit by reference to market value at date of exercise (if no profit, enter '0')	J £ $\text{box C} \text{ minus } \text{box H} \text{ minus } \text{box I}$
Lesser of box F and box J	K £
minus employer's NICs, if any, paid by you on exercise of option	L £
Taxable amount (copy to box 2.15)	M £ $\text{box K} \text{ minus } \text{box L}$

If PAYE has been operated on any part of the amount entered in box M then enter in box 2.41 the amount on which PAYE has been operated.

Example 6: Exercise of a discounted option after a disqualifying event

1 September 2004: you are granted an EMI option over 50,000 shares with a price of 50p per share. The market value of a share at this date was £1. You did not pay anything for the grant of this option.

1 February 2005: a disqualifying event occurs and at this time the market value of a share is £2.

31 March 2005: you exercise the option and buy 50,000 shares. The market value of a share is £3. You pay employer's NICs of £9,600.

The taxable amounts are:

(A) market value of shares at date of grant 50,000 x £1	=	£50,000
minus price paid for the shares 50,000 x 50p	=	£25,000
		£25,000
Taxable amount		£25,000
(B) market value of shares when bought on exercise 50,000 x £3	=	£150,000
minus market value of shares on disqualifying event 50,000 x £2	=	£100,000
		£50,000
minus employer's NICs paid at time of exercise		£9,600
Taxable amount		£ 40,400
Total taxable amount £25,000 + £ 40,400	=	£65,400

If the market value of the shares at the date of exercise was less than the market value at the date of grant, the taxable amount is restricted to the difference between the market value at the date of exercise and the amount paid for the shares, less any employer's NICs paid by you.

If you have exercised an EMI option (which was granted at a discount to market value at the date of grant) more than 40 days after a disqualifying event has taken place, complete:

- boxes 2.13 and 2.14 on Page S1
- boxes 2.53 and 2.54 on Page S2, and
- boxes 2.55 to 2.62 (in the 'Options exercised' column) on Page S2.

Then complete boxes A - J of Working Sheet 4 and boxes A - I of Working Sheet 5, and use Working Sheet 6 to calculate the taxable amount when

- the price paid for the shares is less than their market value at the date the option was granted, and
- a disqualifying event occurred more than 40 days before the option was exercised.

Working Sheet 6: Exercise of a discounted option after a disqualifying event

Profit by reference to market value at date of grant (box K in Working Sheet 4)	A £
Increase in value of shares between disqualifying event and exercise (box K in Working Sheet 5)	B £
Box A + box B	C £
minus employer's NICs paid by you on exercise	D £
Taxable amount (copy to box 2.15)	E £ $\text{box C} \text{ minus } \text{box D}$

If PAYE has been operated on any part of the amounts entered in box E of Working Sheet 6, enter in box 2.41 the total of these amounts on which PAYE has been operated.

If you have **not exercised** your EMI option but have received something for giving it up, or for not exercising it, do not fill in the boxes set out above. Instead refer to 'Assignment or release of options' below.

■ All securities options

● Assignment or release of options

If you receive something in return for:

- assigning your option, **or**
- releasing your option, **or**
- not exercising your option, **or**
- otherwise in connection with your option,

you will have to pay Income Tax on the cash or value you receive unless you release your option in exchange for another option.

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

There is more information available on our website www.inlandrevenue.gov.uk/shareschemes

If you have entered into a formal NIC Election to meet the Employers NIC due on the exercise of the option, enter in Box E of Working Sheet 7 the amount of Employers NIC you have paid.

If you have entered a NIC agreement to meet the Employers NIC, enter in the box E the amount of Employers NIC you have paid only if you have paid this to your employer before 5 June 2005.

Example 7

1 October 2003: you are granted an option over 1,000 shares in the company you work for. You pay £1 for the option.

1 February 2005: you receive £2,500 in return for the option being cancelled. You pay £319.87 employer's NICs.

The taxable amount is:

- | | | |
|--|---|-------------|
| • amount you received for release of option | = | £2,500 |
| • <i>minus</i> amount paid for option | = | <u>£1</u> |
| | | £2,499 |
| • <i>minus</i> employer's NICs paid at the time of cancellation or release of the option | = | <u>£320</u> |

Taxable amount **£2,179**

If you have received something in return for assigning, or releasing your option, or not exercising it, or otherwise in connection with your option 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 2.16 and 2.17 (EMI options), **or** boxes 2.25 and 2.26 (unapproved securities options)
- boxes 2.43 and 2.44 (approved savings-related and discretionary share options and unapproved share options) **or** boxes 2.53 and 2.54 (EMI options)
- boxes 2.45, 2.49 and 2.52 in the 'Options cancelled/released' column (approved savings-related and discretionary share options and unapproved securities options), **or** boxes 2.55, 2.59 and 2.63 in the 'Options cancelled/released' column (EMI options).

Then use Working Sheet 7 to work out the taxable amount.

Working Sheet 7

Amount you received (box 2.52 (or box 2.63 EMI))	A	£	<input type="text"/>
Amount, if any, paid for grant of option (box 2.49 (or box 2.59 EMI))	B	£	<input type="text"/>
Amount, if any, subject to income tax on the grant of option	C	£	<input type="text"/>
Gain made in connection with option	D	£	<input type="text"/>
Employers NIC paid by you	E	£	<input type="text"/>
Taxable amount	F	£	<input type="text"/>

box A minus box B minus box C

box D minus box E

Then copy the taxable amount from E to:

- box 2.6 (approved savings-related share options), **or**
- box 2.12 (approved discretionary share options), **or**
- box 2.18 (EMI options), **or**
- box 2.27 (unapproved securities options).

If PAYE has been operated on any of the amount above, you will also need to enter in box 2.41 the amount on which PAYE has been operated. Your employer will let you have details of this amount (included on your P60, or P45(Part 1A) if you are a former employee) and of how much tax has been accounted for. Include these amounts in boxes 1.8 and 1.11 in the Employment Pages.

■ Unapproved securities options (including share options)

If the option was not granted under an Inland Revenue approved scheme and it was not a qualifying EMI option, you may be taxable on both:

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

● Grant of a securities option

See the notes on page SN7 under Securities options - residence issues.

● Exercise of a securities option

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

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

If you don't have to exercise your option to acquire the securities to which the option relates, you still have to fill in Working Sheet 8 as if you had exercised the option when you acquired the shares.

If you have entered into a formal NIC Election to meet the Employers NIC due on the exercise of the option, enter in Box E of Working Sheet 9 the amount of Employers NIC you have paid

If you have entered a NIC agreement to the Employers NIC, enter in Box E the amount of Employers NIC you have paid only if you have paid this to your employer before 5 June 2005.

Example 8

1 October 2003: 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 February 2005: you exercise the option and buy 1,000 shares at £2 per share. The market value of the shares is £5 per share. You pay £383.87 employer's NICs.

The taxable amount is:

• market value of shares bought	£5 x 1000	=	£5,000
• <i>minus</i> price paid for shares	£2 x 1000	=	£2,000
			£3,000
• <i>minus</i> amount paid for option			£1
• profit on share option exercise			£2,999
• <i>minus</i> employer's NICs paid at the time of exercise			£384
Taxable amount			£2,615

If you have exercised an option under an unapproved scheme fill in:

- boxes 2.22 and 2.23 on Page S1,
- boxes 2.43 and 2.44 on Page S2, **and**
- boxes 2.45, 2.46, 2.47, 2.48, 2.49 and 2.51 (in the 'Options exercised' column).

Then use Working Sheet 8 to calculate the taxable amount.

Working Sheet 8

Market value per security (box 2.51)	A £
Number of securities (box 2.47)	B
Total market value of securities you bought	C $\text{box A} \times \text{box B}$ £
Exercise price: option price per security (box 2.48)	D £
Total price you paid for the employment-related securities	E $\text{box B} \times \text{box D}$ £
Amount, if any, paid for grant of option (box 2.49)	F £
Amount, if any, subject to income tax on the grant of option	G £
Gain made on option exercise	H $\text{box C} \text{ minus } (\text{box E} + \text{box F} + \text{box G})$ £
Employers NIC paid by you	I £
Taxable amount (copy to box 2.24)	J $\text{box H} \text{ minus } \text{box I}$ £

If PAYE has been operated on any of the amount entered in box I, enter in box 2.41 the amount on which PAYE has been operated. Your employer will let you have details of this amount (included on your P60, or P45(Part 1A) if you are a former employee) and of how much tax has been accounted for. Include these amounts in boxes 1.8 and 1.11 in the Employment Pages.

Securities options – residence issues

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

If you are not taxed in the UK on all the income from your employment because of

- your residence status, **and**
- the place you performed the duties of your employment, any options granted to you because of that employment may be subject to special rules. For example, you may have to pay tax on the grant of your option. For options granted to you in such circumstances, you will need to complete Working Sheet 9.

If this applies to you fill in boxes 2.19 and 2.20 on page S1, boxes 2.43 and 2.44 on page S2 and boxes 2.45, 2.47, 2.48, 2.49 and 2.50 (in the 'Option granted' column).

Then use working sheet 9 to calculate to the taxable amount.

Working Sheet 9

Market value per security (box 2.50)	A £
Option price per security (box 2.48)	B £
Discount per security	C $\text{box A} \text{ minus } \text{box B}$ £
Number of securities (box 2.47)	D
Value of option*	E $\text{box C} \times \text{box D}$ £
Amount, if any, you paid for grant of option (box 2.49)	F £
Taxable amount (copy to box 2.21)	G $\text{box E} \text{ minus } \text{box F}$ £

* 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.

If PAYE has been operated on any of the amount entered in box G, you will also need to enter in box 2.41 the amount on which PAYE has been operated. Your employer will let you have details of this amount (included on your P60, or P45(Part 1A) if you are a former employee) and of how much tax has been accounted for. Include these amounts in boxes 1.8 and 1.11 in the Employment Pages.

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 cannot be greater than the tax to pay on the taxable amount G (see working sheet 9). Enter the amount of income tax paid on the grant of your option in box 2.76 on page S3. For options exercised by you in such circumstances, follow the guidance in *Help Sheet IR216: Securities as benefits*. Further details are also in *Help Sheet IR211: Employment - residence and domicile issues*.

Help Sheets IR216 and IR211 are available from the Orderline.

Securities acquired

You will be taxed on employment-related securities you or another person get free or cheaply because of your employment. 'Securities' includes shares and many other financial assets. A definition of what we mean by 'employment-related' is shown below. You can find more guidance in *Help Sheets IR216 and IR219*.

What is employment-related?

Employment-related means that the securities are deemed to have been acquired by reason of your employment when the opportunity to acquire them is made available to you or another person by your employer or a person connected with your employer.

List of securities

- Shares in any body corporate (wherever incorporated) or in any unincorporated body constituted under the law of a country or territory outside the United Kingdom
- debentures, debenture stock, loan stock, bonds, certificates of deposit and other instruments creating or acknowledging indebtedness
- warrants and other instruments entitling their holders to subscribe for securities (whether or not in existence or identifiable)
- certificates and other instruments conferring rights in respect of securities held by persons other than the persons on whom the rights are conferred and the transfer of which may be effected without the consent of those persons
- units in a collective investment scheme
- futures, and
- rights under contracts for differences or contracts similar to contracts for differences.

- Securities acquired from your employment

boxes 2.31 to 2.33 You or another person can get securities through your employment in various ways. If you or another person have acquired securities, or interests in securities, free or cheaply from your employment, ask the Orderline for *Help Sheet IR219: Securities 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: Employees' shares: Operation of Pay As You Earn (PAYE) and National Insurance contributions (NICs)*, from the Orderline.

- Securities subject to risk of forfeiture

boxes 2.31 to 2.39 If you receive securities from your employment which can become forfeit if certain conditions are not met (this does not include shares received from an Approved Share Incentive Plan which are subject to forfeiture), you may be taxed when:

- you receive the securities, if the risk of forfeiture can continue more than five years after the date of receipt, **or**
- **you have elected with your employer to pay income tax when you receive the securities, or**
- the securities 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: Securities acquired from your employment* to help you to complete the Share Schemes Pages. You may also need *Help Sheet IR217: Securities acquired: post-acquisition charges* if tax is due at some point after the securities were acquired. If PAYE has been operated you may also need *Help Sheet IR218: Employees' shares: Operation of Pay As You Earn (PAYE) and National Insurance contributions (NICs)*, from the Orderline.

- Securities as benefits

boxes 2.34 to 2.36 If you get securities 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 get 'partly paid' securities treat them as if you had received an interest-free loan equal to the difference between the market value of fully paid securities and the sum you actually paid. If you subsequently dispose of the shares or are released from paying any outstanding sum for them, further income tax may be due. If this applies to you, ask the Orderline for *Help Sheet IR216: Securities as benefits*.

- Post-acquisition events

boxes 2.37 to 2.39 If you get securities, or an interest in securities, because of your employment, you may be taxed later when:

- restrictions attached to any securities run out or are altered, **or**
- you receive 'special benefits' through your ownership of securities, **or**
- securities convert to securities of a different description because of conversion rights which come from your office or employment, **or**
- the market value of the securities has been artificially increased or reduced, **or**
- your securities are disposed of in certain specific circumstances for more than their market value.

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