Employee shares and securities - further guidance

Contacts
Please phone:
- the number printed on page TR 1 of your tax return
- the SA Helpline on **0845 9000 444**
- the SA Orderline on **0845 9000 404** for helpsheets

or go to **hmrc.gov.uk**

This helpsheet supplements the *Additional information notes*. It deals with some less common circumstances giving rise to tax liabilities relating to the award or ownership of employment related securities. Unless otherwise indicated, all taxable amounts will need to be included in the amount reported in box 1 *Share schemes* on page Ai 2 of the *Additional information* pages.

In deciding whether you have a taxable amount that needs to be included in the *Additional information* pages, please read the *Additional information notes* page AiN 6 for advice where your employer has applied PAYE to the taxable amount.

Grant of a securities option – residence issues

If you have been granted an option and you are not taxed in the UK on all of your employment income, you may be taxable on the grant of the option because of:
- your resident status, and
- the place where you carried out the duties of your employment.

If these circumstances apply, please complete Working Sheet 1 on page 2.

Working Sheet 1

Name of company, security scheme and class of shares

Date option was granted		
Market value of security	1	£
Option price of security	2	£
Discount of each security *box 1 minus box 2*	3	£
Number of securities	4	
Value of option* *box 3 x box 4*	5	£
Amount, if any, you paid for the grant of the option	6	£
Taxable amount *box 5 minus box 6*	7	£
Amount taxed under PAYE	8	£
Taxable amount to go in box 1 of Ai 2 *box 7 minus box 8*	9	£

* This is the minimum value - if you think the value was higher please enter your figure.

Tax paid on grant of option

If you paid Income Tax in connection with the grant of the option, you may be able to deduct the tax paid in box 2 *Share schemes* on page Ai 2.

The tax paid can reduce the amount of tax to pay on box 1 income. The tax entered in box 2 cannot exceed the tax due on the taxable amount included in box 1 (box 9 in Working Sheet 1 above).

Acquisition of securities as benefits

You are taxed on the benefit arising if:

- you acquire employment-related securities or an interest in securities (this may include securities acquired by the exercise of an option granted in a year in which you were not resident whether ordinarily or not ordinarily resident, or resident but not ordinarily resident in the UK), and
- the price you paid when you acquired them was less than they (or fully paid securities of the same class) were worth at that time, and
- the benefit of acquiring the securities free or cheaply is not otherwise taxable.

The taxable benefit is worked out by treating the under-value at which you acquired your shares/securities as if it were an interest-free loan from your employer.

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Your employer should have worked out the taxable benefit and included details on form P11D as 'interest-free and low interest loans'. In that case the taxable amount will be included in the amount that you have returned in the *Employment* pages.

When your employer has not done this you can use Working Sheet 2 to calculate the taxable amount. If the amount at box 5 on this Working Sheet, together with all other loans (notional or actual) obtained by reason of your employment, does not exceed £5,000 at any time in the tax year, no benefit will arise and you do not need to continue completing the Working Sheet.

Working Sheet 2

Name of company, security scheme and class of shares

Market value of a fully paid security when you acquired your securities	1	£
Amount you paid for each security when you acquired them	2	£
Under-value of each security *box 1 minus box 2*	3	£
Number of securities	4	
Original under-value/notional loan *box 3 x box 4*	5	£
If securities were acquired before 6 April 2012, total of any additional amount paid for them before 6 April 2012	6	£
Notional loan at 6 April 2012 (or date securities acquired, if later) *box 5 minus box 6*	7	£
Total of any additional amounts paid during the year (2012-13)	8	£
Notional loan at 5 April 2013 (or date securities sold, if earlier) *box 7 minus box 8*	9	£
Average amount of notional loan (box 7 + box 9) *divided by 2*	10	£
Official rate of interest	11	%
Interest for whole year *box 10 x box 11*	12	£
Number of complete tax months (6th of the month to 5th of the following month) throughout which the loan existed in tax year	13	
Taxable amount (the cash equivalent) to go in box 1 Ai 2 *box 12 x (box 13 divided by 12)*	14	£

There are provisions for interest relief on certain loans to acquire shares in companies and you get can more information from Helpsheet 340 *Interest and alternative finance payments eligible for relief on qualifying loans and alternative finance arrangements*. Go to **hmrc.gov.uk**

If relief is available to you, the taxable amount in Working Sheet 2 will also be the amount of that relief.

Securities sold or transferred

You will be taxed on the benefit arising if:

- you sell or transfer your securities and the total amount you have paid for those securities (or fully paid securities of the same description) is less than they were worth when you acquired them, or
- the amount outstanding on partly paid securities is released or written off.

Your employer should tell you the taxable amount but if not, or you have more tax to pay, complete Working Sheet 3 to calculate the taxable amount.

Working Sheet 3

Name of company, securities scheme and class of security

Market value of a fully paid security when you acquired your securities	1	£
Amount you paid for each security when you acquired them	2	£
Under-value of each security *box 1 minus box 2*	3	£
Number of securities	4	
Notional loan *box 3 x box 4*	5	£
Total of any additional amounts paid for the securities before you sold or transferred them or ceased to be obliged to pay any amount of the under-value	6	£
Taxable amount (the cash equivalent) to go in box 1 Ai 2 *box 5 minus box 6*	7	£

Securities acquired from your employment

You will be taxed on securities (or an interest in securities) that you get free or cheaply either by reason of your employment or from your employer (or a person connected with the employer).

Free or cheap securities

If you acquire securities from your employment and the price you paid for them was less than they were worth at that time, you will be taxed on the difference between what the securities were worth and the price you paid for them. Your employer should tell you the taxable amount but if not, or you have more tax to pay, complete Working Sheet 4 on page 5 to calculate the taxable amount.

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Share/securities incentive scheme

Under these schemes you may be promised or allocated a number of securities but you will not acquire the securities until certain conditions are met. In these cases you will be taxed when the conditions are satisfied and you acquire the securities. Your employer should tell you the taxable amount but if not, or you have more tax to pay, complete Working Sheet 4 below to calculate the taxable amount.

Restricted securities

Where the securities acquired are restricted in some way, the market value of those securities may be less than the value of similar, unrestricted securities. If on acquiring the securities you and your employer have together elected to ignore some or all of those restrictions, the market value for box 1 of Working Sheet 4 should reflect the unrestricted value of the securities (to the extent that you have elected to ignore those restrictions).

Convertible securities

Where securities are acquired, and those securities can be converted into securities of a different description, the market value for box 1 of Working Sheet 4 should reflect the market value of those securities as if they were not capable of being converted.

Working Sheet 4

Name of company, securities scheme and class of security

Market value of each security	1	£
Number of securities	2	
Total market value of securities bought *box 1 x box 2*	3	£
Amount paid for each security, if any	4	£
Total amount paid for securities *box 2 x box 4*	5	£
Taxable amount to go in box 1 Ai 2 *box 3 minus box 5*	6	£

Securities with artificially depressed market value

Income Tax may arise on the acquisition of the securities where the market value of employment-related securities has been reduced by at least 10% at the time of acquisition. The additional tax will not apply where the shares acquired are subject to a risk of forfeiture lasting five years or less and you have not elected with your employer to pay tax at the time of acquisition.

Your employer should tell you the taxable amount but if not, or you have more tax to pay, complete Working Sheet 5 on page 5 to calculate the taxable amount.

Working Sheet 5

Name of company, securities scheme and class of security

Non-reduced market value of each security. *Where the securities acquired are restricted securities, the non-reduced market value in box 1 should be determined as though the securities were not restricted*	1	£
Reduced market value of each security or, if greater, the amount of consideration given for the acquisition of the securities	2	£
Taxable reduction for each security *box 1 minus box 2*	3	£
Number of securities	4	
Taxable amount to go in box 1 Ai 2 *box 3 x box 4*	5	£

Securities acquired: post acquisition changes

If you have acquired employment-related securities or an interest in such securities not under an offer to the public generally, you may be taxed on:

- a proportion of the value of the securities after you acquire them
- consideration received in connection with the securities
- any special benefits you receive by virtue of your ownership of the securities
- gains arising in connection with convertible securities.

This is in addition to the Income Tax due when they were first acquired.

Restricted securities acquired on or after 16 April 2003

Where restricted securities have been acquired on or after 16 April 2003, Income Tax will be due each time there is a chargeable event in relation to those securities. Your employer should be able to tell you whether there has been a chargeable event or if the securities qualify for exemption. If when you acquired the securities you elected with your employer to pay Income Tax at that time as if the securities were unrestricted, you will not have any more Income Tax to pay.

How to calculate the Income Tax

You can calculate the taxable amount by using the formula:

taxable amount = UMV x (IUP minus PCP minus OP) minus CE

where:

UMV = unrestricted market value

IUP = initial uncharged proportion

PCP = previously charged proportion

OP = outstanding proportion

CE = consideration given and expenses incurred.

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Working Sheets 6 and 7 help you to calculate the taxable amount.
Use Working Sheet 6 below where there is only one chargeable event arising after acquisition where the chargeable event arises from the sale of the securities. Use Working Sheet 7 on page 8 in all other cases.

If you would like a spreadsheet calculator to work out the taxable amount, or if you acquired restricted shares before 16 April 2003 and need guidance to calculate the taxable amount, please email the Share Schemes team at **shareschemes@hmrc.gsi.gov.uk**

Working Sheet 6

Name of company, securities scheme and class of security

Step 1 – Unrestricted market value (UMV)

Unrestricted market value of the securities immediately after the chargeable event — 1 £

Step 2 – Initial uncharged proportion (IUP)

Unrestricted market value of the securities on acquisition — 2 £

Amount of any consideration given to acquire the securities — 3 £

Any amount charged to tax on the acquisition of the securities — 4 £

UMV minus deductible amounts *box 2 minus box 3 minus box 4* — 5 £

IUP *box 5 divided by box 2. If the entry in box 6 is nil, or a minus figure, there will be no taxable income from this chargeable event* — 6 £

Step 3 – Taxable amount

UMV x IUP *box 1 x box 6* — 7 £

Total of expenses incurred (CE) — 8 £

Taxable amount *box 7 minus box 8* — 9 £

Step 4 – Taxable amount

Only complete this step if the chargeable event is the sale of securities, and the consideration received is less than the market value of securities immediately after the sale

Total value of consideration given for the sale — 10 £

Actual market value of the securities after the sale — 11 £

Taxable amount *box 9 x box 10 divided by box 11* — 12 £

Taxable amount (box 9 or box 12) to go in box 1 Ai 2

Working Sheet 7

Name of company, securities scheme and class of security

Step 1 – Unrestricted market value (UMV)

Unrestricted market value of the securities immediately after the chargeable event	1	£

Step 2 – Initial uncharged proportion (IUP)

Unrestricted market value of the securities on acquisition	2	£
Amount of any consideration given to acquire the securities	3	£
Any amount charged to tax on the acquisition of the securities	4	£
UMV minus deductible amounts *box 2 minus box 3 minus box 4*	5	£
IUP *box 5 divided by box 2. If the entry in box 6 is nil, or a minus figure, there will be no taxable income from this chargeable event.*	6	£

Step 3 – Outstanding proportion (OP)

Apply this step if any restrictions remain after this chargeable event

Actual market value of the securities immediately after the chargeable event	7	£
OP *(box 1 minus box 7) divided by box 1*	8	£

Step 4 – Previously charged proportion (PCP)

Which chargeable event since acquisition of the securities is this?

- For the first chargeable event PCP is nil
- For the second, PCP is the box 10 value from this Working Sheet for the first chargeable event relating to these securities
- For subsequent chargeable events, PCP is the total of the box 10 values for each chargeable event relating to these securities

Previously charged proportion	9	£

Step 5 – Taxable amount

Apply this step and check step 6 below

IUP minus PCP minus OP *box 6 minus box 9 minus box 8*	10	£
Box 1 x box 10	11	£
Total of expenses incurred and any amount paid to lift or vary the restriction (CE)	12	£
Taxable amount *box 11 minus box 12*	13	£

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Working Sheet 7 *continued*

Step 6 – Taxable amount

Only complete this Step if the chargeable event is the sale of securities, and the consideration received is less than the market value of securities immediately after the sale.

Total value of consideration given for the sale	14	£
Actual market value of the securities after the sale	15	£
Taxable amount *box 13 x box 14 divided by box 15*	16	£

Taxable amount (box 13 or box 16) to go in box 1 Ai 2

Convertible securities

If you acquired employment-related securities that carry an immediate or potential right to be converted into securities of a different description, Income Tax will be due when a chargeable event arises from 6 April 2012. A tax charge arises each time there is a chargeable event.

Your employer should tell you when a chargeable event will arise or if the securities qualify for exemption.

Use Working Sheets 8, 9 or 10 to work out the taxable amount.

Working Sheet 8

Conversion of convertible securities

Name of company, securities scheme and class of security

Market value of each new security after conversion	1	£
Market value of each security on conversion as if the security was not convertible	2	£
Gain for each security *box 1 minus box 2*	3	£
Number of securities	4	
Total gain *box 3 x box 4*	5	£

Deductible amounts

Consideration paid for the right to convert the securities*	6	£
Total consideration paid for the actual conversion of the securities	7	£
Total expenses incurred in connection with the conversion	8	£

Working Sheet 8 *continued*

Total deductible amounts *box 6 + box 7 + box 8*	9	£
Taxable amount to go in box 1 Ai 2 *box 5 minus box 9*	10	£

* This is the excess of the amount paid for the securities and the market value of the convertible securities when they were acquired, ignoring the right to convert.

Working Sheet 9

Disposal of convertible securities

Name of company, securities scheme and class of security

Amount of consideration received on disposal	1	£
Market value of each security on disposal as if the security was not convertible	2	£
Number of securities disposed of	3	
Total market value of securities disposed of *box 2 x box 3*	4	£
Taxable amount to go in box 1 Ai 2 *box 1 minus box 4*	5	£

Working Sheet 10

Receipt of consideration for the release of, or in connection with, the conversion right

Name of company, securities scheme and class of security

Amount of consideration or value of benefit received for each security	1	£
Number of securities affected	2	
Taxable amount to go in box 1 Ai 2 *box 1 x box 2*	3	£

Securities with an artificially enhanced market value

Income Tax may arise where the market value of your employment-related securities is increased by more than 10% at the relevant date by non-commercial actions (something done other than for a genuine commercial reason). The relevant date will be either:

- 5 April 2013, or
- the date you disposed of the securities, if earlier.

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Use Working Sheet 11 to work out the taxable amount.

Working Sheet 11

Name of company, securities scheme and class of security

Market value of each share at the end of the relevant date	1	£
Market value of each share on the same date ignoring effect of artificial increase	2	£
Increase each share *box 1 minus box 2*	3	£
Number of shares	4	
Taxable amount to go in box 1 Ai 2 *box 3 x box 4*	5	£

Securities with an artificially reduced market value

After you have acquired your securities, more Income Tax may be due where the market value of your securities has been reduced by more than 10% by non-commercial actions, something done other than for a genuine commercial reason (artificially reduced).

Restricted securities

Where restricted securities are acquired on or after 16 April 2003 Income Tax may be due if the market value of your securities has been artificially reduced within the period of seven years ending on the relevant date.

The relevant date will be either:
- 5 April 2012, or
- the date of the chargeable event, if earlier.

Complete Working Sheet 6 or 7 entering in box 1 the unrestricted market value of the securities on the relevant date, ignoring the effect of the artificial reduction to calculate the taxable amount.

Securities carrying a risk of forfeiture

Securities carrying a risk of forfeiture acquired on or after 16 April 2003 should be treated in the same way as restricted securities (see above) where there has been an artificial reduction in the seven year period ending on the date the securities were acquired.

Convertible securities

Additional Income Tax may be due if the market value of your securities has been artificially reduced by more than 10% within the period of seven years ending on the date of the chargeable event.

Complete Working Sheet 8, entering in box 1 the market value of the securities, on the date of the chargeable event ignoring the artificial reduction in value. Where you have given consideration for the right to convert the securities the allowable deduction in box 6 is the excess of the consideration given and the non-convertible market value of the securities when they were acquired, ignoring the artificial reduction in market value.

Consideration or benefits received

Where any consideration or benefits received have been artificially reduced within the period of seven years ending on receipt of the consideration or benefits, complete the Working Sheets as below entering in the boxes indicated the consideration or benefits received, ignoring the artificial reduction:

- the disposal of restricted securities – box 1, Working Sheet 6 or 7
- the disposal of convertible securities – box 1, Working Sheet 9
- the release or otherwise in connection with the conversion rights – box 1, Working Sheet 10
- the disposal of securities for more than market value – box 1, Working Sheet 12
- special benefits – box 1, Working Sheet 13.

Securities disposed of for more than their market value

Income Tax is due where you or a person connected with you dispose of your securities so that neither of you has any further entitlement to them and the consideration received is more than the market value at the time of disposal.

Complete Working Sheet 12 to work out the taxable amount.

Working Sheet 12

Name of company, securities scheme and class of security

Consideration given on disposal	1	£
Market value of the securities at the time of disposal	2	£
Expenses incurred in connection with the disposal	3	£
Taxable amount to go in box 1 Ai 2 *box 1 minus (box 2 + box 3)*	4	£

Special benefits accruing to holders of securities

Income Tax is due on the value of any benefits received by you or a person connected with you because of your ownership of employment-related securities at the time you received them. If the benefits are charged to tax elsewhere you will not have to pay tax again.

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Complete Working Sheet 13 to work out the taxable amount.

Working Sheet 13

Name of company, securities scheme and class of security

Value of special benefit received for each security	1	£
Number of securities	2	
Taxable amount to go in box 1 Ai 2 *box 1 x box 2*	3	£

Taxable specific income from employment-related securities: effect of remittance basis from 6 April 2008

New rules regarding the remittance basis for those individuals who are resident in the UK but are either not ordinarily resident or not domiciled in the UK, apply to employment-related securities and securities options acquired on or after 6 April 2008. This note provides a brief summary of the way in which employment-related securities acquired from this date are taxed.

The new rules are complex. For more guidance go to:
- **hmrc.gov.uk/worksheets/sa109-notes.pdf** for the *Residence, remittance basis etc. notes* and
- **hmrc.gov.uk/manuals/ersmmanual/ERSM160000.htm** for the International section of our Employment-Related Securities Manual (ERSM 16000).

The remittance basis for employment-related securities

Where a taxable amount arises in the circumstances covered in this helpsheet and you are subject to the remittance basis, part of the amount may be 'foreign securities income'. Foreign securities income should not be included as part of the taxable amount in the Working Sheets shown in these notes unless it has been remitted to the UK in the year. Guidance on the circumstances in which foreign securities income is treated as remitted to the UK can be found in the International section of the Employment-Related Securities Manual (ERSM).

The calculation of what is foreign securities income is also explained in the International section of the ERSM.

If your employer had enough information to do so, they may have calculated any foreign securities income and deducted this from the amount to be taxed under PAYE and to be included as a taxable amount on your P60. If this has been done correctly, then you will only need to complete the *Additional information* pages box 1 (page Ai 2), to include any amount of foreign securities income that has been remitted to the UK in the year.