Money Matters

with Derek Madden & Company

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In this month's article we take a look at the area of Employee Share Ownership schemes which are growing in popularity. We look at how they work and taxation issues that arise.

Many companies offer share schemes as part of their total rewards program. There is an argument that greater employee engagement contributes to the success of the business. Shares are viewed as a way to motivate employees and give them the opportunity to share in the success they help to achieve.

A share option offers employees the option to purchase shares at discount usually at least 15% less than the market value of the shares. A share award is where the employee receives shares at no cost to the employee except for taxes due.

There are many forms of employee share schemes available.

Approved share schemes
Share Participation Schemes/Approved Profit Sharing Schemes (APSS)
Savings Related Share Option Schemes
Save As You Earn Schemes (SAYE)
Approved Share Option Schemes
Employee Share Ownership Plans (ESOP)
Share Clog Schemes

Unapproved share schemes
Share Purchase Plans (ESPP)
Share Option Schemes
Restricted Share Schemes (RSU)

Approved profit sharing schemes (APSS) are the most common in Ireland. Under an APSS employees can receive shares of up to €12,700 on an annual basis free from income tax. PRSI and the Universal Social Charge (USC) are payable when you receive the shares. The employee needs to hold onto the shares for three years under the tax rules. If the shares are sold after this period at a higher value Capital Gains Tax would be payable on the increase in value.

Taxation Issues
Where an employee exercises a share option and purchases shares for less than the market value, he/she is liable to income tax on the **DIFFERENCE** between the market price of the shares on the date on acquisition and the price actually paid. An amount known as Relevant Tax on a Share Option in respect of the income tax liability must be paid to Revenue not later than **30 DAYS** after the date the share option is exercised. The amount is calculated at the higher rate of tax. This relevant tax on a share option is set against the individual's total income tax liability for that year. The employee will need to submit an income tax return for the year the shares were purchased. This needs to be submitted to Revenue on or before 31st October the following year. So for example if you exercise a share option on 1st July 2012, the Relevant Tax needs to be paid by 31st July 2012 and an income tax return for 2012 will need to be submitted on or before 31st October 2013. This return is required despite the fact that there may be no additional tax to be paid.

Should an employee receive any share awards they are treated as a Benefit in Kind and the appropriate tax, PRSI and USC will be deducted through the employees' payroll.

Capital Gains Tax (CGT) may be payable on the sale of shares. The gain is calculated on the difference between sales proceeds and the market value of the shares at the date the shares were awarded or the date the share option was excercised. The current rate of CGT is 30%, the first €1,270 of a gain in a tax year is exempt from CGT. For gains arising between 1st January and 30th November the tax must be paid by 15th December and for gains arising in December the tax must be paid by 31st January. It is important to note that the gain must also be detailed on the income tax return for the relevant year.
As with all taxation issues, it is best to seek professional advice in relation to your own individual case.