Revenue approved share schemes

https://www.revenue.ie/en/additional-incomes/employment-related-shares/revenue-approved-share-schemes/index.aspx

Overview

An employer needs Revenue approval to set up certain tax-efficient employee share schemes. These are known as 'approved share schemes'. There are three types of Revenue approved employee share schemes:

- Approved Profit-Sharing Schemes (APSSs)
- Employee Share Ownership Trusts (ESOTs)
- Save As You Earn (SAYE) schemes.

Shares awarded, or options granted, under an APSS and SAYE scheme, are exempt from Income Tax (IT). If the ESOT is used in conjunction with an APSS, those shares are also not subject to IT.

You must pay Universal Social Charge (USC) and Pay Related Social Insurance (PRSI) on the value of the shares.

Approved Profit-Sharing Schemes (APSSs)

If your employer operates an APSS, they may allocate Income Tax (IT) free shares to you, provided you meet certain conditions.

Main features

Your employer can allocate shares to you up to a maximum annual limit of €12,700. The shares allocated to you must be held in a trust set up by your employer. The shares must be held in the trust for a specified period of retention (generally two years). If you leave the shares in the trust for three years, you will be exempt from IT.

Your employer may allow you to use your annual bonus to buy shares under an approved scheme.

You can find more information about how the APSS operates in Approved Profit Shares Scheme (APSS).

Taxation of APSS

You must pay Universal Social Charge (USC) and Pay Related Social Insurance (PRSI) on the value of the shares when they are appropriated to you. Your employer will make the necessary deductions through payroll and pay the tax directly to the Collector-General.

Shares disposed of before three years

You may instruct the trustee to sell or transfer your shares after two years, but before the end of the three years.

If you do, you must pay IT at the standard rate (20%) on the original market value of the shares. You must pay this tax to the trustee before the transfer takes place. The trustee will remit this amount to Revenue on your behalf. This will be set against your final tax liability on the disposal or transfer of your shares.

You must pay IT at your marginal rate on the lower of the:

- original market value
- and
- disposal proceeds
- or
- shares' market value at the date of transfer (in the case of a transfer).

You will not have to pay additional USC and PRSI, as these will already have been paid at the time the shares were appropriated to you.

If your final liability is higher than the tax you paid to the trustee, then you must pay this additional amount to Revenue under the self-assessment system. You must include details of the transaction in your tax return.

Shares disposed of after three years

If you leave the shares in the trust for three years, you will be exempt from IT. You may, however, be liable to Capital Gains Tax (CGT).

CGT

If you dispose of your shares, you may be liable to CGT. You must report this disposal to Revenue even if no tax is due. Your employer will not deduct any tax or report the disposal for you.

When you calculate the chargeable gain, the market value of the shares at the date of appropriation is generally used as your cost of acquisition.

- Example 1

  Adam is an employee of Mon Ltd. On 1 January 2018, 1,000 shares are appropriated to him. The market value of the shares at that date is €3,000 (€3 per share). He will pay USC and PRSI on €3,000.

  On 31 March 2021, Adam instructs the trustee to sell the shares for €5,000 (€5 per share).

  As Adam disposed of his shares after more than three years, he does not pay IT on the value of the shares.

  Adam must pay CGT on the increase in value of the shares (€2,000).

- Example 2

  Rosa is an employee of Mon Ltd. On 1 January 2018, 1,000 shares are appropriated to her. The market value of the shares at that date is €3,000 (€3 per share).

  On 31 March 2020, Rosa instructs the trustee to sell the shares for €2,000 (€2 per share).

  As Rosa disposed of her shares before the end of the three years, she must pay IT, PRSI and USC on the €2,000. (The shares' value at the date of sale is less than original market value of €3,000.)

Employee Share Ownership Trusts (ESOTs)

A company can set up an ESOT to provide shares to employees. Shares can be retained in the trust for up to 20 years. To date, ESOTs have mainly been set up by State and semi-State bodies.

An ESOT is normally set up in conjunction with an Approved Profit-Sharing Scheme (APSS). The shares acquired by the ESOT can be transferred through the APSS in a tax-free manner to eligible employees under the APSS rules.

Taxation of shares

Payments received from ESOTs are taxable. You will not pay Income Tax (IT) on ordinary shares transferred through an APSS up to a value of:

- €12,700
- or
- €38,100 (in very limited circumstances).

You will pay Universal Social Charge (USC) and Pay Related Social Insurance (PRSI) on the share awards. The shares must be held in trust for a specified period for the IT relief to apply.

Capital Gains Tax (CGT)

If you dispose of your shares, you may be liable to CGT. You must report this disposal to Revenue, even if no tax is due. Your employer will not deduct any tax or report the disposal for you.

CGT for shares transferred to an APSS

Your shares might have been transferred to an APSS. If they were, you will need to calculate your cost of acquisition in order to calculate your capital gain. Deduct the market value of the shares, when first transferred from the ESOT to the APSS, from the disposal procee

Save As You Earn (SAYE)

Your employer may grant you share options under an approved savings related share-option scheme. If so, you will be exempt from Income Tax (IT) on any gain you make when you exercise the options. That is provided you do not exercise the share options within three years of receiving them.

Main features

There are two elements to this scheme:

- a certified contractual savings scheme
- an approved savings related share-option scheme.

The savings scheme is used to fund the purchase of shares allocated under the share option scheme.

Savings scheme

If you decide to participate in the scheme, you must enter into a savings contract. Your employer may offer you a three-, five- or seven-year savings contract.

You can save between €12 and €500 per month. Your employer will deduct the savings amount from your net salary. Your savings are then placed on deposit with an approved bank or savings institution.

The amount you save must be enough to buy the shares at the option price your employer sets. Your employer sets the option price before you start saving. It may be set at a discount of up to 25% of the market value of the shares at the date of grant of the option.

Any interest or bonus paid on these savings will be exempt from IT and Deposit Interest Retention Tax (DIRT).

Share-option scheme

Once you complete the savings period, you can decide if you want to exercise your option to buy the shares.

If you decide not to exercise your option, the bank or savings institution will return your savings to you. The total savings can be withdrawn tax free.

Taxation on exercise of option

If you decide to exercise your option at the end of the savings period, you will not have to pay IT on any gain you make.

You must pay Universal Social Charge (USC) and Pay Related Social Insurance (PRSI). Your employer will make the necessary deductions through payroll and pay the tax directly to the Collector-General.

Capital Gains Tax (CGT)

If you dispose of your shares, you may be liable to CGT.

You must report this disposal to Revenue, even if no tax is due. Your employer will not deduct any tax or report the disposal for you.

When you calculate the chargeable gain, the option price is used as your cost of acquisition.

- Example

  In November 2015, Philip's employer granted him share options under an approved savings-related share-option scheme. The market value of shares at grant date is €6.25 per share. Philip's employer sets the option price at €5 per share (a 20% discount).

  Philip saves €100 a month for five years. In November 2020, at the end of the five-year period, he has saved €6,600 (€6,000 savings plus €600 interest). He does not pay IT or DIRT on the interest.

  Philip exercises his option and buys 1,320 shares at €5 per share. The market value per share on the date of exercise is €15. His employer deducts USC and PRSI through the payroll. Philip does not pay IT on the exercise gain.

  If Philip ever sells the shares, his base cost for CGT purposes will be €5 per share.

Taxation on excise of option

Description	Calculation	Amount
Market value of 1,320 shares	1,320 x €15	€19,800
Option price paid by Philip	1,320 x €5	€6,600
Exercise gain		**€13,200**
IT (exempt)		nil
USC (8%)		€1,056
PRSI (4%)		€528
Total taxes		**€1,584**

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