

Employee Share Options – New Trap

If you have acquired shares in a company through an employee option, a recent change may affect you.

HM Revenue and Customs (HMRC) have received legal advice which has made it necessary for them to issue revised guidance on the Capital Gains Tax (CGT) implications of the disposal of such shares in certain circumstances.

The change affects the CGT on shares acquired under an option arrangement before 10 April 2003. When this is the case, the CGT 'base cost' is calculated on the market value of the shares when the option to acquire them was given, not the amount paid for the shares or the exercise price of the option.

Because the granting of such options can give rise to an Income Tax (IT) charge in certain circumstances, HMRC have previously considered that the gain or the loss should be calculated on the market value of the shares plus any IT paid at the time of exercising the option. HMRC now advise that this is incorrect and that the CGT position must be calculated without reference to the IT position.

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