

Relevant Tax on a Share Option Information Leaflet CG16

1. Introduction

A share option is a right granted by a company to its employees or directors to acquire shares in the company or in another company at a pre-determined price. The employee or director is not given shares outright but is given the right to acquire them at a fixed price. In some cases, the employee or director will have to pay something for the option itself.

When a person exercises a share option and acquires shares for less than the market value he/she is liable to income tax on the difference between the market value of the shares and the price paid (i.e. the option price). For share options exercised **on or after 30 June, 2003** an amount (known as Relevant Tax on a Share Option - RTSO) in respect of this income tax liability must be paid to the Collector-General not later than 30 days after the date on which the share option is exercised. Details on how to calculate and pay this RTSO liability are set out in this leaflet. From 1 January 2011, Universal Social Charge (USC) should be paid with RTSO.

2. Calculation

RTSO is payable on the gain (i.e. the difference between the market value of the shares at the date of exercise of the option and the option price) and calculated at the higher rate of income tax applicable for the year in which the option is exercised (currently 41%).

If a person considers that his/her entire income tax liability for the year will be chargeable at the standard rate of income tax (currently 20%) a written application can be made to the Inspector of Taxes dealing with the persons tax affairs seeking approval to pay RTSO at the standard rate of Income Tax. This approval must be obtained in advance of making a payment of RTSO calculated at the standard rate. Universal Social Charge contributions should also be included.

Example of calculation based on current higher rate of income tax (41%)

Share option exercised on, say, 10 February 2011

Market value of shares at 10 February 2011 €50,000

Option Price €30,000

Share Option gain €20,000

Amount of RTSO (€20,000 at 41%*) = €8,200

Amount of USC (€20,000 at 7%*) = €1,400

Total Tax Liability €9,600

(*assume lower 2% and 4% rates of USC already absorbed by normal employment income)

Rates of USC	
First €10,036	2%
Next €5,980	4%
Over €16,016	7%*
*4% for those aged 70 years or full medical card holders	

3. Payment of RTSO

The due date for payment of RTSO is 30 days after the share option has been exercised. As with other tax liabilities, late payment gives rise to interest charges.

Form RTSO1 is to be used for the purpose of making an RTSO payment to the Collector-General. The form RTSO1 is available on the Revenue website, www.revenue.ie. Additional copies of the form can also be obtained by phoning 1890 20 30 70.

The completed form should be forwarded, with the RTSO payment to:

**Office of the Collector-General,
Sarsfield House,
Francis Street,
Limerick.**

Failure to pay a tax liability, or to pay on time, can result in enforced collection through the Sheriff, Court proceedings or a Notice of Attachment under Section 1002 of the Taxes Consolidation Act, 1997. Enforcement carries additional costs to any interest penalty charged.

Relevant Tax on a Share Option Information Leaflet CG16

4. Completing a Return of Income

When a share option, giving rise to an Income Tax liability, has been exercised a Return of Income for the tax year in which the share option has been exercised must be completed. Revenue will arrange to issue the return form in any case where RTSO is paid during the course of the year. The Return form should be completed with details of all taxable income for the tax year including the gain on the exercise of the share option. The RTSO and USC already paid will be credited against the total Income Tax and USC liability for the year.

5. Revenue Approved Share Option schemes

There are two types of Revenue approved schemes

- an approved Savings-Related Share Option scheme and
- an approved Share Option scheme.

Where the conditions of the approved scheme are complied with at both the Date of Grant of the share option and at the Date of Exercise a charge of Income Tax does not generally arise on the exercise of the share option and hence there is no requirement to pay RTSO. However, this Income Tax exemption was terminated by Budget 2011 in respect of approved share option schemes for options granted and/or exercised on or after 24 November 2010.

There are, two other circumstances when an Income Tax charge will arise on the exercise of the share option that was granted under a Revenue approved scheme. These are

- where a share option is exercised under the approved Savings-Related Share Option Scheme and, within three years from the Date of Grant of the share option, the company (that has granted the share option) is taken over, has a share reconstruction or is voluntarily wound up.
- where a share option is exercised under an approved Share Option Scheme and the shares acquired are sold within three years from the Date of Grant of the share option.

Where either of these circumstances arises, RTSO should be calculated in accordance with the example in paragraph 2 above and paid to the Collector-General within 30 days.

6. Further Information

Any enquiry regarding the calculation of the RTSO liability should be addressed to: the Inspector of Taxes dealing with the person's tax affairs or telephone 1890 60 50 90.

Any enquiry regarding payment of RTSO should be directed to: -

**Office of the Collector-General,
Sarsfield House,
Francis Street,
Limerick.**
Lo-Call **1890 20 30 70** or e-mail cg@revenue.ie.

Tax Briefing Issue 53, available on our website www.revenue.ie, contains further information on Relevant Tax on a Share Option.