



Income Tax (Earnings and Pensions) Act 2003

2003 CHAPTER 1

PART 11

PAY AS YOU EARN

CHAPTER 4

PAYE: SPECIAL TYPES OF INCOME

Income provided in other ways

696 Readily convertible assets

- (1) If any PAYE income of an employee is provided in the form of a readily convertible asset, the employer is to be treated, for the purposes of PAYE regulations, as making a payment of that income of an amount equal to the amount given by subsection (2).
- (2) The amount referred to is the amount which, on the basis of the best estimate that can reasonably be made, is the amount of income likely to be PAYE income in respect of the provision of the asset.

697 Enhancing the value of an asset

- (1) This section applies if—
 - (a) any PAYE income of an employee is provided in the form of anything enhancing the value of an asset in which the employee or a member of the employee's family or household already has an interest, and
 - (b) that asset, with its value enhanced, would be treated as a readily convertible asset if PAYE income were provided to the employee in the form of the asset at the time of the enhancement.

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- (2) Section 696 has effect as if—
- (a) the employee had been provided, at the time of the enhancement, with PAYE income in the form of the asset (with its value enhanced), instead of with what enhanced its value, and
 - (b) the reference in subsection (2) to the provision of the asset were a reference to the enhancement of its value.
- (3) Any reference in this section to enhancing the value of an asset is a reference to—
- (a) the provision of any services by which the asset or any right or interest in it is improved or otherwise made more valuable,
 - (b) the provision of any property the addition of which to the asset improves it or otherwise increases its value, or
 - (c) the provision of any other enhancement by the application of money or property to the improvement of the asset or to securing an increase in its value or the value of any right or interest in it.
- (4) There is excluded from the scope of what constitutes enhancing the value of an asset for the purposes of this section any enhancement of value arising on the acquisition by the employee (whether or not as a result of the exercise of a right to acquire shares) of—
- (a) any shares acquired by the employee under a scheme approved under Schedule 3 (approved SAYE option schemes) or 4 (approved CSOP schemes), or Schedule 9 to ICTA (approved profit sharing schemes),
 - (b) any right over or interest in shares obtained or acquired by the employee under such a scheme, or
 - (c) any shares acquired by the employee as a result of the exercise of a right over shares obtained before 27th November 1996,
- if the shares in question form part of the share capital of a company falling within section 701(3).
- (5) PAYE regulations may make provision excluding such other matters as may be described in the regulations from the scope of what constitutes enhancing the value of an asset for the purposes of this section.

698 PAYE: shares ceasing to be only conditional or being disposed of

- (1) This section applies if—
- (a) either of the following events occurs—
 - (i) shares cease, without the employee ceasing to have a beneficial interest in them, to be shares in which the employee’s interest is only conditional;
 - (ii) in a case where shares have not so ceased, the employee sells or otherwise disposes of the employee’s interest or any other beneficial interest in the shares; and
 - (b) as a result, an amount is chargeable on any person (“the relevant person”) by virtue of section 427(1).
- (2) This section also applies if—
- (a) an event occurs which is treated for the purposes of section 427 (charge on interest in shares ceasing to be only conditional or on disposal) as an

- event falling within subsection (1)(b) of that section by virtue of section 431 (disposal where employee dies); and
- (b) as a result, an amount is chargeable on any person (“the relevant person”) by virtue of section 427(1).
- (3) If this section applies, sections 684 to 691 and 696 have effect as if—
- (a) in addition to the provision to the relevant person of the employee’s interest in the shares, a further interest in those shares were provided to the relevant person at the time of the event in question; and
- (b) the further interest were not subject to any terms by virtue of which it would fall for the purposes of Chapter 2 of Part 7 (conditional interests in shares) to be treated as only conditional.
- (4) Section 696 as applied by subsection (3) has effect as if the reference in subsection (2) of that section to the amount of income likely to be PAYE income in respect of the provision of the asset were a reference to the amount on which tax is likely to be chargeable by virtue of Chapter 2 of Part 7 in respect of the event in question.
- (5) Expressions used in this section and any provisions of Chapter 2 of Part 7 have the same meanings in this section as in those provisions.

699 PAYE: conversion of shares

- (1) This section applies if—
- (a) at a time when the employee has a beneficial interest in them, shares are converted into shares of a different class as a result of an entitlement to convert them which has been conferred on the holder, and
- (b) as a result, an amount is chargeable on any person (“the relevant person”) by virtue of section 438(1).
- (2) This section also applies if—
- (a) an event occurs which is treated for the purposes of section 438 (charge on conversion of shares) as an event falling within subsection (1) of that section by virtue of section 444 (conversion in consequence of death); and
- (b) as a result, an amount is chargeable on any person (“the relevant person”) by virtue of section 438(1).
- (3) If this section applies, sections 684 to 691 and 696 have effect as if, in addition to the original provision to the relevant person of the convertible shares, the shares into which they were converted were also provided to the relevant person at the time of the event in question.
- (4) Subsection (3) applies in a case where the convertible shares were themselves acquired—
- (a) by means of a taxable conversion (as defined in section 439(6)), or
- (b) by means of a series of such conversions,
- as if the reference to the original provision of the convertible shares were a reference to the provision of the shares which were converted by the earlier or earliest conversion.
- (5) Section 696 as applied by subsection (3) has effect as if the reference in subsection (2) of that section to the amount of income likely to be PAYE income in respect of the provision of the asset were a reference to the amount on which tax is likely to be

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chargeable by virtue of Chapter 3 of Part 7 (convertible shares) in respect of the event in question.

- (6) Expressions used in this section and any provisions of Chapter 3 of Part 7 have the same meanings in this section as in those provisions.

700 PAYE: gains from share options

- (1) This section applies if—
- (a) a gain is realised by the exercise, assignment or release of a right to acquire shares, and
 - (b) as a result, an amount is chargeable on any person (“the relevant person”) by virtue of section 476 or 477 (charge on exercise etc. of share option).
- (2) In the case of the exercise of a right to acquire shares, section 696 has effect as if the relevant person were being provided with PAYE income in the form of the shares—
- (a) at the time the relevant person acquires the shares in the exercise of the right, and
 - (b) in respect of the employment because of which the relevant person was granted the right.
- (3) In the case of the assignment or release of a right to acquire shares, sections 684 to 691 and 696 have effect—
- (a) in so far as the consideration for the assignment or release takes the form of a payment, as if so much of that payment as does not exceed—
 - (i) the relevant proportion of the amount chargeable by virtue of section 476 or 477 in respect of the assignment or release of the right, less
 - (ii) the amount of any relief likely to be available under section 481 (deductible amount in respect of secondary Class 1 contributions met by employee),
 were a payment of PAYE income of the relevant person; and
 - (b) in so far as that consideration consists in the provision of an asset, as if the provision of the asset were the provision of PAYE income in the form of the asset—
 - (i) to the relevant person, and
 - (ii) in respect of the employment because of which the relevant person was granted the right.
- (4) Section 696 as applied by subsection (2) or (3) has effect as if the reference in subsection (2) of that section to the amount of income likely to be PAYE income in respect of the provision of the asset were a reference to—
- (a) the relevant proportion of the amount chargeable by virtue of section 476 or 477 in respect of the exercise, assignment or release of the right, less
 - (b) the amount of any relief likely to be available under section 481.
- (5) PAYE regulations may make provision for excluding payments from the scope of subsection (3)(a) in such circumstances as may be specified in the regulations.
- (6) In this section—
- “asset” includes anything to which subsection (7) applies;

“the relevant proportion” means the proportion that so much of the consideration as takes the form of a payment, or (as the case may be) consists in the provision of an asset, bears to the whole consideration;

and anything to which subsection (7) applies is treated as a readily convertible asset for the purposes of section 696 as applied by subsection (3)(b) or (4).

(7) This subsection applies to—

- (a) any cash voucher;
- (b) any non-cash voucher —
 - (i) which is capable of being exchanged for anything which, if provided to the employee at the time when the voucher is received, would fall to be regarded as a readily convertible asset, or
 - (ii) which (but for section 701(2)(b)) would fall itself to be regarded as a readily convertible asset; and
- (c) any credit-token which is capable of being used to obtain—
 - (i) money, or
 - (ii) anything which, if provided to the employee at the time when the token is used, would fall to be regarded as a readily convertible asset.

(8) Expressions used in this section and section 476 or 477 have the same meanings in this section as in that section.