



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 by means of vouchers and tokens

693 Cash vouchers

- (1) If a cash voucher to which Chapter 4 of Part 3 (taxable benefits: vouchers and credit-tokens) applies is received by an employee at any time, the employer is to be treated, for the purposes of PAYE regulations, as making at that time a payment of PAYE income of the employee of an amount equal to the amount ascertained under section 81(2) (benefit of cash voucher treated as earnings).
- (2) This section does not apply to the provision of a cash voucher if—
 - (a) the voucher is used to meet expenses, and
 - (b) if the amount for which the voucher is capable of being exchanged had been paid directly to the employee by his or her employer, the amount would not have been PAYE income except by virtue of section 70 (sums in respect of expenses).
- (3) This section does not apply to the provision of a cash voucher if it is exchanged for an amount which—
 - (a) is used to meet expenses, and

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- (b) if it had been paid directly to the employee by the employer, would not have been PAYE income except by virtue of section 70.
- (4) PAYE regulations may exclude from the scope of this section the provision of cash vouchers in circumstances specified in the regulations.
- (5) A cash voucher provided for an employee and appropriated to the employee—
 - (a) by attaching it to a card held for the employee, or
 - (b) in any other way,
 is to be treated for the purposes of this section as having been received by the employee at the time when it is appropriated.

694 Non-cash vouchers

- (1) If a non-cash voucher to which this section applies is received by an employee, the employer is to be treated, for the purposes of PAYE regulations, as making a payment of PAYE income of the employee of an amount equal to the amount ascertained under section 87(2) (benefit of non-cash voucher treated as earnings).
- (2) This section applies to a non-cash voucher to which Chapter 4 of Part 3 (taxable benefits: vouchers and credit-tokens) applies if—
 - (a) either of the conditions set out below is met with respect to the voucher, and
 - (b) the voucher is not of a description for the time being excluded from the scope of this section by PAYE regulations.
- (3) The first condition is met with respect to a non-cash voucher if it 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.
- (4) The second condition is met with respect to a non-cash voucher if (but for section 701(2)(b)) it would fall itself to be regarded as a readily convertible asset.
- (5) A payment under subsection (1) is made—
 - (a) in the case of a non-cash voucher other than a cheque voucher, at the time when the cost of provision is incurred or, if later, the time when the voucher is received by the employee;
 - (b) in the case of a cheque voucher, at the time when the voucher is handed over in exchange for money, goods or services.
- (6) For the purposes of subsection (5)—
 - “cheque voucher” has the same meaning as in Chapter 4 of Part 3;
 - “cost of provision”, in relation to a voucher provided by an employer, has the meaning given by section 87;
 and a cheque voucher that is posted is to be treated as handed over at the time of posting.
- (7) A non-cash voucher provided for an employee and appropriated to the employee—
 - (a) by attaching it to a card held for the employee, or
 - (b) in any other way,
 is to be treated for the purposes of this section as having been received by the employee at the time when it is appropriated.

695 Credit-tokens

- (1) On each occasion on which an employee uses a credit-token provided to the employee because of the employee's employment to obtain—
 - (a) money, or
 - (b) anything which, if provided to the employee at the time when the credit-token is used, would fall to be regarded as a readily convertible asset,the employer is to be treated, for the purposes of PAYE regulations, as making a payment of PAYE income of the employee of an amount equal to the amount ascertained under section 94(2) (benefit of credit-token treated as earnings).
- (2) The use of a credit-token by an employee to obtain money is excluded from the scope of this section if the money—
 - (a) is used to meet expenses, and
 - (b) if it had been paid directly to the employee by the employer, would not have been PAYE income except by virtue of section 70 (sums in respect of expenses).
- (3) PAYE regulations may make provision for excluding from the scope of this section any other description of use of a credit-token.

*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.
- (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—

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- (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 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—

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- (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.

Supplemental

701 Meaning of “asset”

- (1) In this Chapter “asset” includes any property and in particular any investment of a kind specified in Part 3 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 ([S.I. 2001/544](#)).

This is subject to subsection (2).

- (2) In this Chapter “asset” does not include—
- (a) any payment actually made of, or on account of, PAYE income;
 - (b) subject to section 700(6), any cash voucher, non-cash voucher or credit-token;
 - (c) the following—
 - (i) any shares acquired by the employee (whether or not as a result of the exercise of a right to acquire shares) 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),
 - (ii) any right over or interest in shares obtained or acquired by the employee under such a scheme, or
 - (iii) any shares acquired by the employee as the result of the exercise of a right over shares obtained before 27th November 1996,

if the shares in question form part of the ordinary share capital of a company falling within subsection (3); or
 - (d) any description of property for the time being excluded from the scope of this section by PAYE regulations.
- (3) A company falls within this subsection if it—
- (a) is the employer (“the employer company”);
 - (b) has control of the employer company; or
 - (c) either is, or has control of, a company which is a member of a consortium owning either the employer company or a company having control of the employer company.
- (4) In this section “share” includes stock.
- (5) For the purposes of this section a company is a member of a consortium owning another company if it is one of a number of companies which between them

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beneficially own not less than 75% of the other company's ordinary share capital and each of which beneficially owns not less than 5% of that capital.

702 Meaning of “readily convertible asset”

- (1) In this Chapter “readily convertible asset” means—
- (a) an asset capable of being sold or otherwise realised on—
 - (i) a recognised investment exchange (within the meaning of the Financial Services and Markets Act 2000 (c. 8)),
 - (ii) the London Bullion Market,
 - (iii) the New York Stock Exchange, or
 - (iv) a market for the time being specified in PAYE regulations;
 - (b) an asset consisting in—
 - (i) the rights of an assignee, or any other rights, in respect of a money debt that is or may become due to the employer or any other person,
 - (ii) property that is subject to a warehousing regime, or any right in respect of property so subject, or
 - (iii) anything that is likely (without anything being done by the employee) to give rise to, or to become, a right enabling a person to obtain an amount or total amount of money which is likely to be similar to the expense incurred in the provision of the asset; or
 - (c) an asset for which trading arrangements are in existence, or are likely to come into existence in accordance with—
 - (i) any arrangements of another description existing when the asset is provided, or
 - (ii) any understanding existing at that time.
- (2) For the purposes of this section trading arrangements for any asset provided to any person exist whenever there exist any arrangements the effect of which in relation to that asset is to enable—
- (a) that person, or
 - (b) a member of that person's family or household,
- to obtain an amount or total amount of money that is, or is likely to be, similar to the expense incurred in the provision of that asset.
- (3) PAYE regulations may exclude any description of arrangements from being trading arrangements for the purposes of this section.
- (4) References in this section to enabling a person to obtain an amount of money are to be read—
- (a) as references to enabling an amount to be obtained by that person by any means at all, including in particular—
 - (i) by using any asset or other property as security for a loan or advance, or
 - (ii) by using any rights comprised in or attached to any asset or other property to obtain any asset for which trading arrangements exist; and
 - (b) as including references to cases where a person is enabled to obtain an amount as a member of a class or description of persons, as well as where the person is so enabled in the person's own right.

- (5) For the purposes of this section an amount is similar to the expense incurred in the provision of any asset if it is, or is an amount of money equivalent to—
- (a) the amount of the expense so incurred, or
 - (b) a greater amount, or
 - (c) an amount that is less than that amount but not substantially so.
- (6) In this section—
- “money” includes money expressed in a currency other than sterling;
 - “money debt” means any obligation which falls to be, or may be, settled—
 - (a) by the payment of money, or
 - (b) by the transfer of a right to settlement under an obligation which is itself a money debt;
 - “warehousing regime” means—
 - (a) a warehousing or fiscal warehousing regime (within the meaning of sections 18 to 18F of the Value Added Tax Act 1994 (c. 23)); or
 - (b) any corresponding arrangements in a State other than the United Kingdom which is a Contracting Party to the Agreement on the European Economic Area signed at Oporto on 2nd May 1992 as adjusted by the Protocol signed at Brussels on 17th March 1993.