



# Income Tax (Earnings and Pensions) Act 2003

## 2003 CHAPTER 1

### PART 7

EMPLOYMENT INCOME: SHARE-RELATED INCOME AND EXEMPTIONS

### CHAPTER 9

ENTERPRISE MANAGEMENT INCENTIVES

*Tax advantages: exercise of option*

**529 Scope of tax advantages: option must be exercised within 10 years**

- (1) Sections 530 to 540 apply in connection with the exercise of a qualifying option.
- (2) But those sections only apply in cases where the option is exercised on or before the tenth anniversary of—
  - (a) the date of the grant of the option, or
  - (b) if it is a replacement option, the date of the grant of the original option.
- (3) In the EMI code “the original option” means—
  - (a) where there has been one replacement option, the option that that option replaced, or
  - (b) where there have been two or more replacement options, the option that the first of them replaced.

**530 No charge on exercise of option to acquire shares at market value**

- (1) This section applies if the option is to acquire shares at not less than their market value—

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*Status: This is the original version (as it was originally enacted).*

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- (a) at the time when the option is granted, or
  - (b) if it is a replacement option, at the time when the original option was granted.
- (2) If this section applies, no liability to income tax arises by virtue of section 476 (charge on exercise etc. of option by employee) in respect of the exercise of the option.
- (3) This section has effect subject to section 532 (modified tax consequences following disqualifying events).

**531 Limitation of charge on exercise of option to acquire shares below market value**

- (1) This section applies if the option is to acquire shares at less than their market value—
- (a) at the time when the option is granted, or
  - (b) if it is a replacement option, at the time when the original option was granted, or at nil cost.

- (2) If this section applies, the section 476 gain is—

$$CMV - (ACO + ACS)$$

where—

CMV is the chargeable market value,

ACO is the amount or value of the consideration given for the grant of the option,  
and

ACS is the amount, if any, for which the shares are acquired.

- (3) “The chargeable market value” means—
- (a) the market value of the shares—
    - (i) at the time when the option was granted, or
    - (ii) if it is a replacement option, at the time when the original option was granted, or
  - (b) the market value of the shares at the time when the option is exercised,  
whichever is lower.
- (4) In this section “the section 476 gain” means the amount which is to be regarded for the purposes of section 476 (charge on exercise etc. of option by employee) as the amount of the gain realised by exercising the option.
- (5) This section has effect subject to section 532 (modified tax consequences following disqualifying events).