These notes refer to the National Insurance Contributions and Statutory Payments Act 2004 (c.3) which received Royal Assent on 13 May 2004

NATIONAL INSURANCE CONTRIBUTIONS AND STATUTORY PAYMENTS ACT 2004

EXPLANATORY NOTES

BACKGROUND TO THE ACT

Agreements and joint elections - employment-related securities

Effect of the measure

16. Employers who award restricted and convertible securities also face a similar problem in respect of accounting for the unpredictable "post-acquisition" secondary contribution liability on these awards. The term "post-acquisition" relates to a chargeable event following the employee taking ownership of restricted or convertible securities. Typically, a charge to income tax and National Insurance contributions will occur when a restriction applying to the security is lifted or the security is converted into another more valuable form of security. For example, where an employee is awarded shares without any voting or dividend rights for the first two years following the award, the restriction will reduce the value of the shares. When the restriction is lifted at the end of the two year period the shares will increase in value with the benefit of the voting and benefit rights returned. The changes at sections 3 and 4 will allow an employer to ask the employee to fund the employer's (secondary) National Insurance contributions liability on post-acquisition earnings derived from restricted and convertible securities.