



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

[^{F1}695A Employment income under Part 7A

- (1) This section applies if—
 - (a) the value of a relevant step counts as employment income under Chapter 2 of Part 7A, and
 - (b) the relevant step is not the payment of a sum of money, and references to A and B are to be read accordingly.
- (2) For the purposes of PAYE regulations B is treated as making a payment of PAYE income of A of an amount which, on the basis of the best estimate which can reasonably be made, is—
 - (a) the amount of the employment income, less
 - (b) so much of that amount (if any) to which section 554Z9(2) or 554Z10(2) applies.
- (3) The payment is treated as made on the latest of the following days—
 - (a) the day on which the relevant step is taken,
 - (b) the day on which A's employment with B starts, and

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- (c) the day which is 30 days after the day on which FA 2011 is passed.
- (4) Subsection (2) does not apply if the person who takes the relevant step (whether or not a person to whom PAYE regulations apply) accounts for income tax on the relevant step in accordance with PAYE regulations.]

Textual Amendments

- F1** S. 695A inserted (with effect in accordance with Sch. 2 paras. 52-59 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 2 para. 31](#)

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.
- [^{F2}(3) This section does not apply to any PAYE income so far as it is employment income under Chapter 2 of Part 7A.]

Textual Amendments

- F2** S. 696(3) inserted (with effect in accordance with Sch. 2 paras. 52-59 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 2 para. 32](#)

697 Enhancing the value of an asset

- (1) This section applies if—
- 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
 - 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—
- 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
 - 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—
- the provision of any services by which the asset or any right or interest in it is improved or otherwise made more valuable,
 - the provision of any property the addition of which to the asset improves it or otherwise increases its value, or

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- (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 ^{F3}... Schedule 9 to ICTA (approved profit sharing schemes),
- [^{F4}(aa) any shares acquired by the employee under a scheme which is a Schedule 3 SAYE option scheme (see Schedule 3),]
- [^{F5}(ab) any shares acquired by the employee under a scheme which is a Schedule 4 CSOP scheme (see Schedule 4),]
- (b) any right over or interest in shares obtained or acquired by the employee under [^{F6}a scheme mentioned in any of the preceding paragraphs], 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.

Textual Amendments

- F3** Words in s. 697(4)(a) omitted (6.4.2014) by virtue of [Finance Act 2014 \(c. 26\)](#), [Sch. 8 paras. 137\(a\), 146](#) (with [Sch. 8 paras. 147-157](#))
- F4** S. 697(4)(aa) inserted (6.4.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 8 paras. 137\(b\)](#), 146 (with [Sch. 8 paras. 147-157](#))
- F5** S. 697(4)(ab) inserted (6.4.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 8 paras. 201](#), 204 (with [Sch. 8 paras. 205-215](#))
- F6** Words in s. 697(4)(b) substituted (6.4.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 8 paras. 137\(c\)](#), 146 (with [Sch. 8 paras. 147-157](#))

[^{F7} 698] PAYE: special charges on employment-related securities

- (1) This section applies where by reason of the operation of—
- (a) section 426 (chargeable events in relation to restricted securities and restricted interests in securities),
- (b) section 438 (chargeable events in relation to convertible securities and interests in convertible securities),
- (c) section 446B (charge on acquisition where market value of securities or interest artificially depressed),
- (d) section 446L (charge where market value of securities artificially enhanced),
- (e) section 446U (securities or interest acquired for less than market value: charge on discharge of notional loan),
- [^{F8}(ea) section 446UA (securities or interest acquired for less than market value: charge in avoidance cases),]

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- (f) section 446Y (charge where securities or interest disposed of for more than market value), or
 - (g) section 447 (chargeable benefit from securities or interest),
- in relation to employment-related securities, an amount counts as employment income of an employee.
- (2) Sections 684 to 691 and 696 have effect as if—
- (a) the employee were provided with PAYE income in the form of the employment-related securities by the employer on the relevant date, and
 - (b) the reference in subsection (2) of section 696 to the amount of income likely to be PAYE income in respect of the provision of the asset were to the amount likely to count as employment income.
- [^{F9}(2A) For the purposes of this section the amount likely to count as employment income under section 426 or 438 means the amount after deducting the amount of any relief likely to be available under section 428A or 442A (relief for secondary Class 1 contributions met by employee).]
- (3) In a case in which the employment-related securities are not readily convertible assets, if—
- (a) the amount counts as income by virtue of section 427(3)(c), 439(3)(b), (c) or (d), 446Y or 447, and
 - (b) the whole or any part of the consideration or benefit concerned takes the form of a payment or consists in the provision of an asset,
- subsection (4) applies.
- (4) Sections 684 to 691 and 696 have effect —
- (a) to the extent that the consideration or benefit takes the form of a payment, as if it were a payment of PAYE income of the employee by the employer, and
 - (b) to the extent that the consideration or benefit 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 by the employer on the relevant date.
- (5) Section 696 as applied by subsection (4)(b) has effect as if the reference in subsection (2) of that section to the amount of income likely to be PAYE income were to the same proportion of the amount likely to count as employment income as so much of the consideration or benefit as consists in the provision of the asset bears to the whole of the consideration or benefit.
- (6) In this section “the relevant date” means—
- (a) in relation to an amount counting as employment income under section 426 or 438, the date on which the chargeable event in question occurs,
 - (b) in relation to an amount counting as employment income under section 446B, the date of the acquisition of the securities or interest in securities in question,
 - (c) in relation to an amount counting as employment income under section 446L, the valuation date in question,
 - (d) in relation to an amount counting as employment income under section 446U, the date on which the notional loan in question is treated as discharged,
- [^{F10}(da) in relation to an amount counting as employment income under section 446UA, the date of the acquisition of the securities or interest in securities in question,]

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- (e) in relation to an amount counting as employment income under section 446Y, the date of the disposal of the securities or interest in securities in question, and
- (f) in relation to an amount counting as employment income under section 447, the date on which the benefit in question is received.

(7) In this section “employment-related securities” has the same meaning as in Chapters 1 to 4 of Part 7.

[^{F11}(8) This section is subject to section 700A (employment-related securities etc: remittance basis).]]

Textual Amendments

- F7** S. 698 substituted for ss. 698, 699 (1.9.2003 with effect in accordance with Sch. 22 para. 12(2) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 22 para. 12\(1\)](#); S.I. 2003/1997, art. 2
- F8** S. 698(1)(ea) inserted (with effect in accordance with Sch. 2 para. 16(4) of the amending Act) by [Finance \(No. 2\) Act 2005 \(c. 22\)](#), [Sch. 2 para. 16\(2\)](#)
- F9** S. 698(2A) inserted (1.9.2004) by [Finance Act 2004 \(c. 12\)](#), s. 85(2), [Sch. 16 para. 4\(2\)](#); S.I. 2004/1945, art. 2
- F10** S. 698(6)(da) inserted (with effect in accordance with Sch. 2 para. 16(4) of the amending Act) by [Finance \(No. 2\) Act 2005 \(c. 22\)](#), [Sch. 2 para. 16\(3\)](#)
- F11** S. 698(8) inserted (with effect in accordance with Sch. 7 para. 81 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 7 para. 36](#)

^{F7}699 PAYE: conversion of shares

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Textual Amendments

- F7** S. 698 substituted for ss. 698, 699 (1.9.2003 with effect in accordance with Sch. 22 para. 12(2) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 22 para. 12\(1\)](#); S.I. 2003/1997, art. 2

[^{F12}700 PAYE: gains from securities options

- (1) This section applies where by reason of the operation of section 476 (acquisition of securities pursuant to securities option etc) in relation to an employment-related securities option an amount counts as employment income of an employee.
- (2) In a case where the amount counts as employment income by virtue of section 477(3)
 - (a) (acquisition of securities), sections 684 to 691 and 696 have effect as if—
 - (a) the employee were provided with PAYE income in the form of the securities by the employer on the relevant date, and
 - (b) the reference in subsection (2) of section 696 to the amount of income likely to be PAYE income in respect of the provision of the asset were to the amount likely to count as employment income.
- (3) In a case where the amount counts as income by virtue of section 477(3)(b) or (c) (assignment or release for consideration or receipt of benefit), sections 684 to 691 and 696 have effect —

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- (a) to the extent that the consideration or benefit takes the form of a payment, as if it were a payment of PAYE income of the employee by the employer, and
 - (b) to the extent that the consideration or benefit 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 by the employer on the relevant date.
- (4) Section 696 as applied by subsection (3)(b) has effect as if the reference in subsection (2) of that section to the amount of income likely to be PAYE income were to the same proportion of the amount likely to count as employment income as so much of the consideration or benefit as consists in the provision of the asset bears to the whole of the consideration or benefit.
- [^{F13}(4A) For the purposes of this section the amount likely to count as employment income under section 476 means the amount after deducting the amount of any relief likely to be available under section 481 or 482 (relief for secondary Class 1 contributions or special contribution met by employee).]
- (5) In this section “the relevant date” means the date on which the chargeable event in question occurs.
- (6) In this section—
 “employment-related securities option”, and
 “securities”,
 have the same meaning as in Chapter 5 of Part 7.
- [^{F14}(7) This section is subject to section 700A (employment-related securities etc: remittance basis).]]

Textual Amendments

F12 S. 700 substituted (1.9.2003) by [Finance Act 2003 \(c. 14\)](#), [Sch. 22 para. 13\(1\)](#); S.I. 2003/1997, art. 2

F13 S. 700(4A) inserted (1.9.2004) by [Finance Act 2004 \(c. 12\)](#), s. 85(2), [Sch. 16 para. 4\(3\)](#); S.I. 2004/1945, art. 2

F14 S. 700(7) inserted (with effect in accordance with Sch. 7 para. 81 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 7 para. 37](#)

[^{F15}700A Employment-related securities etc: remittance basis

- (1) This section applies if—
 - (a) section 698 or 700 applies, and
 - (b) part or all of the amount that counts as employment income is foreign securities income or is likely to be foreign securities income.
- (2) The amount of the payment treated under section 696 as made is limited to—
 - (a) the amount that, on the basis of the best estimate that can reasonably be made, is likely to count as employment income, minus
 - (b) the amount that, on the basis of such an estimate, is likely to be foreign securities income.
- (3) References in this section to “foreign securities income” are to income that is foreign securities income for the purposes of section [^{F16}41F].]

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Textual Amendments

F15 S. 700A inserted (with effect in accordance with Sch. 7 para. 80 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 7 para. 38](#)

F16 Word in s. 700A(3) substituted (with effect in accordance with Sch. 9 para. 48 of the amending Act) by [Finance Act 2014 \(c. 26\)](#), [Sch. 9 paras. 21, 47](#)

Changes to legislation:

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