



Income Tax (Earnings and Pensions) Act 2003

2003 CHAPTER 1

[^{F1}PART 7A

EMPLOYMENT INCOME PROVIDED THROUGH THIRD PARTIES

Textual Amendments

- F1** Pt. 7A inserted (with effect in accordance with Sch. 2 paras. 52-59 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 2 para. 1](#)

Modifications etc. (not altering text)

- C1** Pt. 7A modified (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 11 para. 35\(6\)](#)
C2 Pt. 7A modified (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 11 para. 1\(8\)](#)
C3 [Pt. 7A](#) modified (22.7.2020) by 2017 c. 32, Sch. 11 para. 1A(2)(6) (as inserted by [Finance Act 2020 \(c. 14\)](#), [s. 16\(3\)](#))

CHAPTER 1

APPLICATION ETC

Application^[F2]: *main case*

Textual Amendments

- F2** Words in s. 554A cross-heading inserted (with effect in accordance with Sch. 1 para. 14 of the amending Act) by [Finance Act 2018 \(c. 3\)](#), [Sch. 1 para. 5\(2\)](#)

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

554A Application of Chapter 2 [^{F3}: main case]

(1) Chapter 2 applies if—

- (a) a person (“A”) is an employee, or a former or prospective employee, of another person (“B”),
- (b) there is an arrangement (“the relevant arrangement”) to which A is a party or which otherwise (wholly or partly) covers or relates to A,
- (c) it is reasonable to suppose that, in essence—
 - (i) the relevant arrangement, or
 - (ii) the relevant arrangement so far as it covers or relates to A,
 is (wholly or partly) a means of providing, or is otherwise concerned (wholly or partly) with the provision of, rewards or recognition or loans in connection with A's employment, or former or prospective employment, with B,
- (d) a relevant step is taken by a relevant third person, and
- (e) it is reasonable to suppose that, in essence—
 - (i) the relevant step is taken (wholly or partly) in pursuance of the relevant arrangement, or
 - (ii) there is some other connection (direct or indirect) between the relevant step and the relevant arrangement.

(2) In this Part “relevant step” means a step within section 554B, 554C or 554D [^{F4}, or paragraph 1 [^{F5} or 1A] of Schedule 11 to F(No. 2)A 2017][^{F6} (including such a step where the taking of the step, or some aspect of the taking of the step, constitutes a breach of trust or is a constituent part of a breach of trust, and even if the step or aspect] is void as a result of breach of trust)..

(3) Subsection (1) is subject to subsection (4) and sections 554E to 554Y.

[^{F7}(4) Chapter 2 does not apply by reason of—

- (a) a relevant step taken on or after A's death if—
 - (i) the relevant step is within section 554B, or
 - (ii) the relevant step is within section 554C by virtue of subsection (1) (ab) of that section,
- (b) a relevant step within paragraph 1 of Schedule 11 to F(No.2)A 2017 which is treated as being taken on or after A's death, or
- (c) a relevant step within paragraph 1A of Schedule 11 to F(No.2)A 2017 in a case where the initial step (within the meaning given by sub-paragraph (1)(a) of that paragraph) is treated as being taken on or after A's death.]

(5) In subsection (1)(b) and (c)(ii) references to A include references to any person linked with A.

[Subsections (5B) and (5C) apply where—

- ^{F8}(5A) (a) a payment to a person other than A, or to A as a trustee, is of earnings from A's employment with B, and
- (b) the earnings are, in whole or part, charged to tax under the employment income Parts otherwise than by virtue of this Part,
- and for this purpose it does not matter whether all or some only or none of the tax is paid (but see sections 554Z5 and 554Z11B).

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (5B) For the purposes of subsection (5C), an arrangement is a “redirected-earnings arrangement” if it (wholly or partly) covers or relates to redirected earnings; and for the purposes of this subsection and subsection (5C) “redirected earnings” means—
- (a) the payment mentioned in subsection (5A)(a), or
 - (b) any sum or other property which (directly or indirectly)—
 - (i) represents, or
 - (ii) is derived from,that payment.
- (5C) The circumstances mentioned in subsection (5A)—
- (a) do not prevent a redirected-earnings arrangement being within subsection (1)(b), and
 - (b) do not prevent rewards or recognition or loans being in connection with A's employment with B for the purposes of subsection (1)(c) where there is use of redirected earnings for the provision of the whole, or part, of the rewards or recognition or loans.]
- (6) For the purposes of subsection (1)(c) it does not matter if the relevant arrangement does not include details of the steps which will or may be taken in connection with providing, in essence, rewards or recognition or loans as mentioned (for example, details of any sums of money or assets which will or may be involved or details of how or when or by whom or in whose favour any step will or may be taken).
- (7) In subsection (1)(d) “relevant third person” means—
- (a) A acting as a trustee,
 - (b) B acting as a trustee, or
 - (c) any person other than A and B.
- (8) If B is a company and is a member of a group of companies at the time the relevant step is taken, in subsection (7) references to B are to be read as including references to any other company which is a member of that group at that time.
- (9) If B is a limited liability partnership, in subsection (7) references to B are to be read as including references to any company which is a wholly-owned subsidiary (as defined in section 1159(2) of the Companies Act 2006) of B at the time the relevant step is taken.
- (10) Neither subsection (8) nor subsection (9) applies if there is a connection (direct or indirect) between the relevant step and a tax avoidance arrangement.
- (11) For the purposes of subsection (1)(e)—
- (a) the relevant step is connected with the relevant arrangement if (for example) the relevant step is taken (wholly or partly) in pursuance of an arrangement at one end of a series of arrangements with the relevant arrangement being at the other end, and
 - (b) it does not matter if the person taking the relevant step is unaware of the relevant arrangement.
- (12) For the purposes of subsection (1)(c) and (e) in particular, all relevant circumstances are to be taken into account in order to get to the essence of the matter.

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

Textual Amendments

- F3** Words in s. 554A heading inserted (with effect in accordance with Sch. 1 para. 14 of the amending Act) by [Finance Act 2018 \(c. 3\)](#), **Sch. 1 para. 5(3)**
- F4** Words in s. 554A(2) inserted (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 11 para. 46(2)**
- F5** Words in s. 554A(2) inserted (22.7.2020) by [Finance Act 2020 \(c. 14\)](#), **Sch. 2 para. 24(2)**
- F6** Words in s. 554A(2) inserted (with effect in accordance with Sch. 6 para. 13 of the amending Act) by [Finance Act 2017 \(c. 10\)](#), **Sch. 6 para. 2**
- F7** [S. 554A\(4\)](#) substituted (22.7.2020) by [Finance Act 2020 \(c. 14\)](#), **Sch. 2 para. 24(3)**
- F8** [S. 554A\(5A\)-\(5C\)](#) inserted (retrospective and with effect in accordance with Sch. 1 para. 13(b)(c) of the amending Act) by [Finance Act 2018 \(c. 3\)](#), **Sch. 1 paras. 1, 13(a)**

Modifications etc. (not altering text)

- C4** [S. 554A\(1\)\(e\)\(i\)\(ii\)](#) modified (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 11 para. 1(3)**

^{F9}Application: close companies

Textual Amendments

- F9** [Ss. 554AA-554AF](#) and cross-heading inserted (with effect in accordance with Sch. 1 para. 14 of the amending Act) by [Finance Act 2018 \(c. 3\)](#), **Sch. 1 para. 2**

554AA Application of Chapter 2: close companies

- (1) Chapter 2 applies if—
- (a) there is an arrangement (“the relevant arrangement”) to which an individual (“A”) is a party or which otherwise (wholly or partly) covers or relates to A,
 - (b) it is reasonable to suppose that, in essence—
 - (i) the relevant arrangement, or
 - (ii) the relevant arrangement so far as it covers or relates to A,
 is (wholly or partly) a means of providing, or is otherwise concerned (wholly or partly) with the provision of, A-linked payments or benefits or loans,
 - (c) a close company (“B”) enters into a relevant transaction (see section 554AB),
 - (d) it is reasonable to suppose that, in essence—
 - (i) the relevant transaction is entered into (wholly or partly) in pursuance of the relevant arrangement, or
 - (ii) there is some other connection (direct or indirect) between the relevant transaction and the relevant arrangement,
 - (e) at the time B enters into the relevant transaction, or at any earlier time in the 3 years ending with the date of the transaction, A is a director or an employee of B,
 - (f) at the time B enters into the relevant transaction, or at any earlier time in the 3 years ending with the date of the transaction, A has a material interest in B (see section 554AE),
 - (g) a relevant step is taken by a relevant third person,
 - (h) it is reasonable to suppose—
 - (i) that the sum of money or asset which is the subject of the relevant step represents (directly or indirectly), or has arisen or derives from, the

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- sum of money or asset which is the subject of the relevant transaction,
or
- (ii) that the sum of money or asset which is the subject of the relevant transaction represents (directly or indirectly), or has arisen or derives from, the sum of money or asset which is the subject of the relevant step, and
- (i) there is a time in the relevant period when the main purpose, or one of the main purposes, of operating, implementing, maintaining or terminating the relevant arrangement so far as it covers or relates to—
- (i) the relevant transaction, and the relevant step so far as related to the relevant transaction, or
- (ii) the relevant step, and the relevant transaction so far as related to the relevant step,
- is the avoidance of? income tax, national insurance contributions, corporation tax or a charge to tax under section 455 of CTA 2010.
- (2) In this section “close company” includes a company that would be a close company but for section 442(a) of CTA 2010 (exclusion of companies not resident in the United Kingdom).
- (3) For the purposes of subsection (1)(b), a payment or benefit or loan is “A-linked” if—
- (a) it is being provided to A, or a person chosen by A or within a class of persons chosen by A,
- (b) it is being provided to a person on A's behalf, or at A's direction or request, or
- (c) it is being provided to a person linked with A and it is reasonable to suppose that the main reason, or one of the main reasons, for it being provided is that the person is linked with A.
- (4) For the purposes of subsection (1)(i), the “relevant period” consists of the time of the relevant transaction, the time of the relevant step, the times around each of those two times, and any other times between those two times.
- (5) Subsections (6) and (7) apply where—
- (a) a payment to a person other than A, or to A as a trustee, is of earnings from—
- (i) A's employment with B, or
- (ii) A's office as a director of B, and
- (b) the earnings are, in whole or part, charged to tax under the employment income Parts otherwise than by virtue of this Part,
- and for this purpose it does not matter whether all or some only or none of the tax is paid (but see sections 554Z5 and 554Z11B).
- (6) For the purposes of subsection (7), an arrangement is a “redirected-earnings arrangement” if it (wholly or partly) covers or relates to redirected earnings; and for the purposes of this subsection and subsection (7) “redirected earnings” means—
- (a) the payment mentioned in subsection (5)(a), or
- (b) any sum or other property which (directly or indirectly)—
- (i) represents, or
- (ii) is derived from,
- that payment.
- (7) The circumstances mentioned in subsection (5)—

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (a) do not prevent a redirected-earnings arrangement being within subsection (1)(a),
 - (b) do not prevent payments or benefits or loans being A-linked for the purposes of subsection (1)(b) where there is use of redirected earnings for the provision of the whole, or part, of the payments or benefits or loans, and
 - (c) do not prevent the making of the payment mentioned in subsection (5)(a) being entry into a relevant transaction.
- (8) In this section and in section 554AB “relevant third person” means—
- (a) A acting as a trustee,
 - (b) B acting as a trustee, or
 - (c) any person other than A or B.
- (9) See also sections 554AD to 554AF (further interpretation and supplementary provision).

554AB Meaning of “relevant transaction”

- (1) For the purposes of section 554AA(1), B enters into a relevant transaction if—
- (a) B enters into a transaction within subsection (2), and
 - (b) the transaction is not an excluded transaction (see section 554AC).
- (2) B enters into a transaction within this subsection if B—
- (a) pays a sum of money to a relevant third person (see section 554AA(8)),
 - (b) acquires a right to a payment of a sum of money, or to a transfer of assets, where there is a connection (direct or indirect) between the acquisition of the right and—
 - (i) a payment made, by way of a loan or otherwise, to a relevant third person, or
 - (ii) a transfer of assets to a relevant third person,
 - (c) releases or writes off the whole or a part of—
 - (i) a loan made to a relevant third person, or
 - (ii) an acquired right of the kind mentioned in paragraph (b),
 - (d) transfers an asset to a relevant third person,
 - (e) takes a step by virtue of which a third person acquires an asset within subsection (4),
 - (f) makes available a sum of money or asset for use, or makes it available under an arrangement which permits its use—
 - (i) as security for a loan made or to be made to a relevant third person, or
 - (ii) otherwise as security for the meeting of any liability, or the performance of any undertaking, which a relevant third person has or will have, or
 - (g) grants to a relevant third person a lease of any premises the effective duration of which is likely to exceed 21 years.
- (3) For the purposes of subsection (2) “loan” includes—
- (a) any form of credit, and
 - (b) a payment that is purported to be made by way of a loan.
- (4) The following assets are within this subsection—

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (a) securities,
 - (b) interests in securities, and
 - (c) securities options,as defined in section 420 for the purposes of Chapters 1 to 5 of Part 7; and in subsection (2)(e) “acquires” is to be read in accordance with section 421B(2)(a).
- (5) For the purposes of subsection (2)(f)—
 - (a) references to making a sum of money or asset available are references to making it available in any way, however informal,
 - (b) it does not matter if the relevant third person has no legal right to have the sum of money or asset used as mentioned, and
 - (c) it does not matter if the sum of money or asset is not actually used as mentioned.
- (6) Subsections (7) and (8) apply, for the purposes of subsection (2)(g), for the purpose of determining the likely effective duration of a lease of any premises granted to a relevant third person (“the original lease”).
- (7) If there are circumstances which make it likely that the original lease will be extended for any period, the effective duration of the original lease is to be determined on the assumption that the original lease will be so extended.
- (8) Further, if—
 - (a) the relevant third person, A or a person linked with A is, or is likely to become, entitled to a later lease, or the grant of a later lease, of the same premises, or
 - (b) it is otherwise likely that the relevant third person, A or a person linked with A will be granted a later lease of the same premises,the original lease is to be treated as continuing until the end of the later lease (and subsection (7) also applies for the purpose of determining the duration of the later lease).
- (9) In this section “lease” and “premises” have the same meaning as they have in Chapter 4 of Part 3 of ITTOIA 2005.

554AC Meaning of “excluded transaction”

- (1) In section 554AB “excluded transaction” means—
 - (a) a distribution made by B,
 - (b) a transaction that—
 - (i) is entered into by B in the ordinary course of B's business, and
 - (ii) is on terms that would have been made between persons not connected with each other dealing at arm's length, or
 - (c) a transaction entered into in order to facilitate the disposal, on terms that would have been made between persons not connected with each other dealing at arm's length, of shares in B.
- (2) But the distribution or transaction is not an “excluded transaction” if the avoidance of tax is the main purpose, or one of the main purposes, of (as the case may be)—
 - (a) making the distribution, or
 - (b) the transaction.

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (3) Part 23 of CTA 2010 has effect for determining the meaning of “distribution” in this section as if—
- (a) section 1000(1) of CTA 2010 included a paragraph specifying any distribution made in a winding up of the company, and
 - (b) sections 1030 to 1030B of that Act were omitted.

554AD Section 554AA: meaning of “director”

- (1) For the purposes of section 554AA(1)(e) “director” means—
- (a) in relation to a company whose affairs are managed by a board of directors or similar body, a member of that body,
 - (b) in relation to a company whose affairs are managed by a single director or similar person, that director or person, and
 - (c) in relation to a company whose affairs are managed by the members themselves, a member of the company,
- and includes any person in accordance with whose directions or instructions the directors of the company (as defined in this subsection) are accustomed to act.
- (2) For the purposes of subsection (1) a person is not to be regarded as a person in accordance with whose directions or instructions the directors of the company are accustomed to act merely because the directors act on advice given by that person in a professional capacity.
- (3) For the purposes of section 5 as it applies to this Part, a person who is a director within the meaning of subsection (1) is to be treated (where it would not otherwise be the case) as holding an office.

554AE Section 554AA: meaning of “material interest”

- (1) Section 68 (meaning of “material interest” in a company) applies for the purposes of section 554AA and, subject to subsection (2), does so as it applies for the purposes of the benefits code.
- (2) In section 68 as it applies for the purposes of section 554AA—
- (a) each of the following is to be treated as “an associate” of A—
 - (i) a person (“the promoter”) who, for the purposes of Part 5 of FA 2014, is carrying on business as a promoter in relation to the relevant arrangement, and
 - (ii) where the promoter is a company, any company which is an associated company of the promoter;
 - (b) “participator”—
 - (i) in relation to a close company, means a person who is a participator in relation to the company for the purposes of section 455 of CTA 2010 (see sections 454 and 455(5) of that Act), and
 - (ii) in relation to a company which would be a close company if it were a UK resident company, means a person who would be such a participator if the company were a close company.
- (3) In subsection (2)(a)(ii) “associated company” has the same meaning as it has for the purposes of Part 10 of CTA 2010 (see section 449 of that Act).

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

554AF Section 554AA: supplementary

- (1) Section 554AA(1) is subject to subsection (2) and sections 554E to 554Y.
- (2) Chapter 2 does not apply by reason of section 554AA(1) in relation to a relevant step taken on or after A's death if—
 - (a) the relevant step is within section 554B, or
 - (b) the relevant step is within section 554C by virtue of subsection (1)(ab) of that section.
- (3) In section 554AA(1)(a) and (b) references to A include references to a person linked with A.
- (4) For the purposes of section 554AA(1)(b) it does not matter if the relevant arrangement does not include details of the steps which will or may be taken in connection with providing, in essence, payments or benefits or loans as mentioned (for example, details of any sums of money or assets which will or may be involved or details of how or when or by whom or in whose favour any step will or may be taken).
- (5) For the purposes of section 554AA(1)(b) and (d) in particular, all relevant circumstances are to be taken into account in order to get to the essence of the matter.]

Relevant steps

554B Relevant steps: earmarking etc of sum of money or asset

- (1) A person (“P”) takes a step within this section if—
 - (a) a sum of money or asset held by or on behalf of P is earmarked (however informally) by P with a view to a later relevant step being taken by P or any other person (on or following the meeting of any condition or otherwise) in relation to—
 - (i) that sum of money or asset, or
 - (ii) any sum of money or asset which may arise or derive (directly or indirectly) from it, or
 - (b) a sum of money or asset otherwise starts being held by or on behalf of P, specifically with a view, so far as P is concerned, to a later relevant step being taken by P or any other person (on or following the meeting of any condition or otherwise) in relation to—
 - (i) that sum of money or asset, or
 - (ii) any sum of money or asset which may arise or derive (directly or indirectly) from it.
- (2) For the purposes of subsection (1)(a) and (b) it does not matter—
 - (a) if details of the later relevant step have not been worked out (for example, details of the sum of money or asset which will or may be the subject of the step or details of how or when or by whom or in whose favour the step will or may be taken),
 - (b) if any condition which would have to be met before the later relevant step is taken might never be met, or
 - (c) if A, or any person linked with A, has no legal right to have a relevant step taken in relation to any sum of money or asset mentioned in subsection (1)(a) (i) or (ii) or (b)(i) or (ii) (as the case may be).

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (3) For the purposes of subsection (1)(b) it does not matter whether or not the sum of money or asset in question has previously been held by or on behalf of P on a basis which is different to that mentioned in subsection (1)(b).

554C Relevant steps: payment of sum, transfer of asset etc

- (1) A person (“P”) takes a step within this section if P—
- (a) pays a sum of money to a relevant person,
 - ^{F10} [(aa) acquires a right to a payment of a sum of money, or to a transfer of assets, where there is a connection (direct or indirect) between the acquisition of the right and—
 - (i) a payment made, by way of a loan or otherwise, to a relevant person, or
 - (ii) a transfer of assets to a relevant person,
 - (ab) releases or writes off the whole or a part of—
 - (i) a loan made to a relevant person, or
 - (ii) an acquired right of the kind mentioned in paragraph (aa),”.]
 - (b) transfers an asset to a relevant person,
 - (c) takes a step by virtue of which a relevant person acquires an asset within subsection (4),
 - (d) makes available a sum of money or asset for use, or makes it available under an arrangement which permits its use—
 - (i) as security for a loan made or to be made to a relevant person, or
 - (ii) otherwise as security for the meeting of any liability, or the performance of any undertaking, which a relevant person has or will have, or
 - (e) grants to a relevant person a lease of any premises the effective duration of which is likely to exceed 21 years.
- (2) In subsection (1) “relevant person”—
- (a) means A or a person chosen by A or within a class of person chosen by A, and
 - (b) includes, if P is taking a step on A's behalf or otherwise at A's direction or request, any other person.
- (3) In subsection (2) references to A include references to any person linked with A.
- ^{F11} [For the purposes of subsection (1) “loan” includes—
- ^{F11}(3A) (a) any form of credit, and
 - (b) a payment that is purported to be made by way of a loan.
- (3B) Subsection (3C) applies where a person (“T”) acquires from another person (“L”) (whether or not for consideration)—
- (a) a right to payment of the whole or part of a loan where T is the person liable (at the time of the acquisition of the right) to repay the loan, or
 - (b) a right to payment of a sum of money, or to a transfer of assets, where T is the person liable (at the time of the acquisition of the right) to pay the sum, or transfer the assets.
- (3C) L is to be treated for the purposes of subsection (1)(ab) as releasing—
- (a) in a case within subsection (3B)(a), the loan or the relevant part of it;

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (b) in a case within subsection (3B)(b), the right or the relevant part of it.]
- (4) The following assets are within this subsection—
 - (a) securities,
 - (b) interests in securities, and
 - (c) securities options,as defined in section 420 for the purposes of Chapters 1 to 5 of Part 7; and in subsection (1)(c) “acquires” is to be read in accordance with section 421B(2)(a).
- (5) For the purposes of subsection (1)(d)—
 - (a) references to making a sum of money or asset available are references to making it available in any way, however informal,
 - (b) it does not matter if the relevant person has no legal right to have the sum of money or asset used as mentioned, and
 - (c) it does not matter if the sum of money or asset is not actually used as mentioned.
- (6) Subsections (7) and (8) apply for the purpose of determining the likely effective duration of a lease of any premises granted to a relevant person (“the original lease”) for the purposes of subsection (1)(e).
- (7) If there are circumstances which make it likely that the original lease will be extended for any period, the effective duration of the original lease is to be determined on the assumption that the original lease will be so extended.
- (8) Further, if—
 - (a) A is, or is likely to become, entitled to a later lease, or the grant of a later lease, of the same premises, or
 - (b) it is otherwise likely that A will be granted a later lease of the same premises,the original lease is to be treated as continuing until the end of the later lease (and subsection (7) also applies for the purpose of determining the duration of the later lease).
- (9) In subsection (8)—
 - (a) references to A include references to—
 - (i) any person linked with A, and
 - (ii) the person to whom the original lease was granted where the original lease was not granted to A or any person linked with A, and
 - (b) references to the same premises include references to any premises which include the whole or part of the same premises.
- (10) In this section “lease” and “premises” have the same meaning as they have in Chapter 4 of Part 3 of ITTOIA 2005.

Textual Amendments

- F10** S. 554C(1)(aa)(ab) inserted (with effect in accordance with Sch. 6 para. 13 of the amending Act) by [Finance Act 2017 \(c. 10\)](#), [Sch. 6 para. 3\(2\)](#)
- F11** S. 554C(3A)-(3C) inserted (with effect in accordance with Sch. 6 para. 13 of the amending Act) by [Finance Act 2017 \(c. 10\)](#), [Sch. 6 para. 3\(3\)](#)

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

Modifications etc. (not altering text)

C5 S. 554C(2)(3) applied (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 11 para. 1\(5\)](#)

554D Relevant steps: making asset available

- (1) A person (“P”) takes a step within this section if, without transferring the asset to the relevant person, P—
 - (a) at any time, makes an asset available for a relevant person to benefit from in a way which is substantially similar to the way in which the relevant person would have been able to benefit from the asset had the asset been transferred to the relevant person at that time, or
 - (b) at or after the end of the relevant period, makes an asset available for a relevant person to benefit from.
- (2) If—
 - (a) before the end of the relevant period, P makes available an asset for a relevant person to benefit from, and
 - (b) at the end of the relevant period, P continues to make the asset available for the relevant person to benefit from,

P is treated as taking a step within this section by virtue of subsection (1)(b) at the end of the relevant period.
- (3) For the purposes of subsections (1) and (2)—
 - (a) references to making an asset available are references to making it available in any way, however informal,
 - (b) it does not matter if the relevant person has no legal right to benefit from the asset, and
 - (c) it does not matter if the relevant person does not actually benefit from the asset.
- (4) In subsections (1) and (2) “the relevant period” means the period of two years starting with the day on which A's employment with B ceases.
- (5) In subsections (1) and (2) “relevant person”—
 - (a) means A or a person chosen by A or within a class of person chosen by A, and
 - (b) includes, if P is taking a step on A's behalf or otherwise at A's direction or request, any other person.
- (6) In subsection (5) references to A include references to any person linked with A.
- (7) The following factors (among others) may be taken into account in determining whether a step within this section is taken by virtue of subsection (1)(a)—
 - (a) any limitations on the way in which the relevant person may benefit from the asset,
 - (b) the period over which the asset is being made available and (if relevant) the extent to which that period covers the expected remaining useful life of the asset,
 - (c) the extent to which the relevant person has, or is to have, a say over the disposal of the asset, and

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (d) the extent to which the relevant person may benefit from any proceeds arising from the disposal of the asset or otherwise have a say in the way the proceeds are used.

Exclusions

554E Exclusions: steps under certain schemes etc

- (1) Chapter 2 does not apply by reason of a relevant step if the step is taken under any of the following—
 - (a) [^{F12}a Schedule 2]SIP (within the meaning of Chapter 6 of Part 7),
 - (b) [^{F13}a Schedule 3]SAYE option scheme (within the meaning of Chapter 7 of Part 7),
 - (c) [^{F14}a Schedule 4]CSOP scheme (within the meaning of Chapter 8 of Part 7),
 - (d) an arrangement the sole purpose of which is the provision of excluded benefits (as defined in section 393B(3)),
 - (e) an arrangement the sole purpose of which is the making of payments which are to be disregarded in the calculation mentioned in regulation 25 of the Social Security (Contributions) Regulations 2001 (S.I. 2001/1004) by virtue of paragraph 12 of Part 10 of Schedule 3 to those Regulations (as that paragraph has effect by virtue of regulation 2(3) of the Social Security (Contributions) (Amendment No. 9) Regulations 2007 (S.I. 2007/2905)),
 - (f) a pension scheme set up by a government outside the United Kingdom for the benefit of its employees or primarily for their benefit,
 - (g) a registered pension scheme, or
 - (h) an arrangement the sole purpose of which is the making of payments (within the meaning of Chapter 3 of Part 4 of FA 2004 (see section 161(2) of that Act))—
 - (i) to which section 161(4) of FA 2004 applies in relation to a registered pension scheme (or a registered pension scheme which has been wound up), and
 - (ii) which are authorised in relation to that scheme by section 160(1) of FA 2004.
- (2) Subject to subsection (4), subsection (3) applies to a relevant step taken by a person (“P”) if—
 - (a) the relevant step is not taken under an arrangement mentioned in subsection (1)(a) to (c), and
 - (b) there is no connection (direct or indirect) between the relevant step and a tax avoidance arrangement.
- (3) Chapter 2 does not apply by reason of the relevant step if the step is taken solely for the purpose of—
 - (a) acquiring or holding shares—
 - (i) to be awarded under [^{F15}a Schedule 2]SIP, or
 - (ii) to be provided pursuant to options granted under [^{F16}a Schedule 3]SAYE option scheme or [^{F17}a Schedule 4]CSOP scheme, or
 - (b) providing shares pursuant to—
 - (i) an award of shares under [^{F18}a Schedule 2]SIP, or

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (ii) an option granted under [^{F19}a Schedule 3]SAYE option scheme or [^{F20}a Schedule 4]CSOP scheme.
- (4) Subsection (3) does not apply to the relevant step if, immediately before or after the step is taken—
 - (a) the total number of shares of any type held, in relation to the [^{F21}Schedule 2]SIP, the [^{F22}Schedule 3]SAYE option scheme or the [^{F23}Schedule 4]CSOP scheme, by P and any other persons for purposes within subsection (3)(a) and (b), exceeds
 - (b) the maximum number of shares of that type which might reasonably be expected to be required, in relation to the [^{F21}Schedule 2]SIP, the [^{F22}Schedule 3]SAYE option scheme or the [^{F23}Schedule 4]CSOP scheme, for those purposes over the period of ten years starting with the day on which the relevant step is taken.
- (5) Terms used in subsections (2) to (4) have the same meaning as they have in Chapter 6, 7 or 8 of Part 7 (as the case may be).
- (6) Chapter 2 does not apply by reason of a relevant step taken by a person (“P”) if—
 - (a) the relevant step is taken for the sole purpose of—
 - (i) granting qualifying options under an EMI arrangement,
 - (ii) acquiring or holding shares to be provided pursuant to qualifying options granted under an EMI arrangement, or
 - (iii) providing shares pursuant to qualifying options granted under an EMI arrangement, and
 - (b) there is no connection (direct or indirect) between the relevant step and a tax avoidance arrangement.
- (7) But subsection (6) does not apply to the relevant step if, immediately before or after the step is taken—
 - (a) the total number of shares of any type held, in relation to the EMI arrangement, by P and any other persons for purposes within subsection (6)(a)(i) to (iii), exceeds
 - (b) the maximum number of shares of that type which might reasonably be expected to be required, in relation to the EMI arrangement, for those purposes over the period of ten years starting with the day on which the relevant step is taken.
- (8) In subsections (6) and (7) “EMI arrangement” means an arrangement under which qualifying options are granted.
- (9) Terms used in subsections (6) to (8) have the same meaning as in Chapter 9 of Part 7.
- (10) Subsection (11) applies if—
 - (a) a person (“P”) takes a relevant step within section 554B by reason of which Chapter 2 would apply apart from subsection (3) or (6), and
 - (b) at any time (“the relevant time”) the sum of money or asset (or any part of it) which is the subject of the relevant step—
 - (i) ceases to be held by or on behalf of P solely for purposes within subsection (3)(a) and (b) or (6)(a)(i) to (iii), but
 - (ii) continues to be held by or on behalf of P on the basis mentioned in section 554B(1)(a) or (b).

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (11) This Part has effect as if a relevant step within section 554B were taken at the relevant time—
- (a) the subject of which is the sum of money or asset (or the part of it) mentioned in subsection (10)(b), and
 - (b) by reason of which Chapter 2 is to apply (subject only to section 554A(4)).
- (12) Chapter 2 does not apply by reason of a relevant step taken by the Independent Parliamentary Standards Authority in relation to a member of the House of Commons.

Textual Amendments

- F12** Words in s. 554E(1)(a) substituted (6.4.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 8 paras. 49\(2\)](#), 89 (with [Sch. 8 paras. 90-96](#))
- F13** Words in s. 554E(1)(b) substituted (6.4.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 8 paras. 136\(2\)](#), 146 (with [Sch. 8 paras. 147-157](#))
- F14** Words in s. 554E(1)(c) substituted (6.4.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 8 paras. 200\(2\)](#), 204 (with [Sch. 8 paras. 205-215](#))
- F15** Words in s. 554E(3)(a)(i) substituted (6.4.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 8 paras. 49\(2\)](#), 89 (with [Sch. 8 paras. 90-96](#))
- F16** Words in s. 554E(3)(a)(ii) substituted (6.4.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 8 paras. 136\(3\)](#), 146 (with [Sch. 8 paras. 147-157](#))
- F17** Words in s. 554E(3)(a)(ii) substituted (6.4.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 8 paras. 200\(3\)](#), 204 (with [Sch. 8 paras. 205-215](#))
- F18** Words in s. 554E(3)(b)(i) substituted (6.4.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 8 paras. 49\(2\)](#), 89 (with [Sch. 8 paras. 90-96](#))
- F19** Words in s. 554E(3)(b)(ii) substituted (6.4.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 8 paras. 136\(3\)](#), 146 (with [Sch. 8 paras. 147-157](#))
- F20** Words in s. 554E(3)(b)(ii) substituted (6.4.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 8 paras. 200\(3\)](#), 204 (with [Sch. 8 paras. 205-215](#))
- F21** Words in s. 554E(4)(a)(b) substituted (6.4.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 8 paras. 49\(3\)](#), 89 (with [Sch. 8 paras. 90-96](#))
- F22** Words in s. 554E(4)(a)(b) substituted (6.4.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 8 paras. 136\(4\)](#), 146 (with [Sch. 8 paras. 147-157](#))
- F23** Words in s. 554E(4)(a)(b) substituted (6.4.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 8 paras. 200\(4\)](#), 204 (with [Sch. 8 paras. 205-215](#))

554F Exclusions: commercial transactions

- (1) Chapter 2 does not apply by reason of a relevant step which is the payment of a sum of money by way of a loan if—
- (a) the loan is a loan on ordinary commercial terms within the meaning of section 176, ignoring conditions B and C in that section, and
 - (b) there is no connection (direct or indirect) between the relevant step and a tax avoidance arrangement.
- (2) Chapter 2 does not apply by reason of a relevant step taken by a person (“P”), which is not the payment of a sum of money by way of a loan, if—
- (a) the step is taken for the sole purpose of a transaction which P has with A and which P entered into in the ordinary course of P's business,
 - (b) a substantial proportion of P's business involves similar transactions with members of the public,

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (c) the terms on which P entered into the transaction with A are substantially the same as the terms on which P normally enters into similar transactions with members of the public, and
 - (d) there is no connection (direct or indirect) between the relevant step and a tax avoidance arrangement.
- (3) For the purposes of subsection (2)(b) and (c) a transaction is “similar” if it is of the same or a similar type to the transaction which P has with A.
- (4) In subsection (2)(b) and (c) “members of the public” means members of the public at large with whom P deals at arm's length.
- (5) In this section references to A include references to any person linked with A.
- [See paragraph 25 of Schedule 11 to F(No. 2)A 2017 for provision about exclusions
^{F24}(6) where a loan is made on ordinary commercial terms and the relevant step is within paragraph 1 of that Schedule.]

Textual Amendments

F24 S. 554F(6) inserted (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 11 para. 26](#)

554G Exclusions: transactions under employee benefit packages

- (1) Chapter 2 does not apply by reason of a relevant step taken by a person (“P”) if—
- (a) the step is not taken under a pension scheme,
 - (b) the step is taken for the sole purpose of a transaction which P has with A and which P entered into in the ordinary course of P's business,
 - (c) if the step is the payment of a sum of money by way of a loan—
 - (i) a substantial proportion of P's business involves making similar loans to members of the public,
 - (ii) the transaction with A is part of a package of benefits which is available to a substantial proportion of B's employees, and
 - (iii) subsection (3) does not apply,
 - (d) if the step is not the payment of a sum of money by way of a loan, the transaction with A is part of a package of benefits which is available—
 - (i) to a substantial proportion of B's employees, or
 - (ii) to a substantial proportion of those employees of B whose status as employees of B is comparable with A's status as an employee of B (taking into account (for example) levels of seniority, types of duties and levels of remuneration),
 - (e) the terms on which similar transactions are offered by P under the package of benefits mentioned in paragraph (c)(ii) or (d) (as the case may be) are generous enough to enable substantially all of the employees of B to whom the package is available to take advantage of what is offered (if they want to),
 - (f) the terms on which P entered into the transaction with A are substantially the same as the terms on which P normally enters into similar transactions with employees of B under the package of benefits,
 - (g) if B is a company, a majority of B's employees to whom the package of benefits is available do not have a material interest (as defined in section 68) in B, and

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (h) there is no connection (direct or indirect) between the relevant step and a tax avoidance arrangement.
 - (2) For the purposes of subsection (1)(c)(i)—
 - (a) a loan is “similar” if it is made for the same or similar purposes as the loan which is the subject of the relevant step, and
 - (b) “members of the public” means members of the public at large with whom P deals at arm's length.
 - (3) This subsection applies if any feature of the package of benefits mentioned in subsection (1)(c)(ii) has or is likely to have the effect that, of the employees of B to whom the package is available, it is employees within subsection (4) on whom benefits under the package will be wholly or mainly conferred.
 - (4) The employees within this subsection are—
 - (a) directors,
 - (b) senior employees,
 - (c) employees who receive, or as a result of the package of benefits are likely to receive, the higher or highest levels of remuneration, and
 - (d) if B is a company and is a member of a group of companies, any employees not within paragraph (b) or (c) who—
 - (i) are senior employees in the group, or
 - (ii) receive, or as a result of the package of benefits are likely to receive, the higher or highest levels of remuneration in the group.
 - (5) For the purposes of subsection (1)(e) and (f) a transaction is “similar” if it is of the same or a similar type to the transaction which P has with A.
 - (6) If the relevant step is not the payment of a sum of money by way of a loan, in this section references to employees of B are references to those employees of B whose duties of employment are performed in the United Kingdom; and for this purpose duties performed outside the United Kingdom the performance of which is merely incidental to the performance of duties in the United Kingdom are to be treated as performed in the United Kingdom.
 - (7) In this section (apart from subsection (1)(d)(ii)) references to A include references to any person linked with A.
- [See paragraph 29 of Schedule 11 to F(No. 2)A 2017 for provision about exclusions
- ^{F25}(8) for transactions under employee benefit packages in a case in which the relevant step is within paragraph 1 of that Schedule.]

Textual Amendments

F25 S. 554G(8) inserted (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 11 para. 30](#)

554H Exclusions: earmarking of deferred remuneration

- (1) This section applies if—
 - (a) on a date (“the award date”) A is awarded remuneration (“the deferred remuneration”) in respect of A's employment with B,

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (b) the main purpose of the award is not the provision of relevant benefits (within the meaning of Chapter 2 of Part 6, but ignoring section 393B(2)(a)),
 - (c) the deferred remuneration is awarded on terms (“the deferred remuneration terms”) the main purpose of which is to defer the provision to A of the deferred remuneration to a specified date (“the vesting date”) which is after the award date, while providing that the award of the deferred remuneration is revoked if specified conditions are not met on or before the vesting date,
 - (d) the vesting date is not more than five years after the award date,
 - (e) as at the award date, there is a reasonable chance that the award of the deferred remuneration will be revoked because not all the specified conditions will be met on or before the vesting date,
 - (f) if the deferred remuneration were to be provided to A by any person on the award date, that action would, for the purposes of Part 11, be a payment of PAYE employment income of A in respect of A's employment with B,
 - (g) before the end of the vesting date, a person (“P”) takes a relevant step within section 554B by reason of which Chapter 2 would apply apart from this section,
 - (h) on the taking of the relevant step, the sum of money or asset which is the subject of the step represents the deferred remuneration or any part of it (and nothing else), and
 - (i) there is no connection (direct or indirect) between the relevant step and a tax avoidance arrangement.
- (2) In addition to the provision relating to revocation required by subsection (1)(c) (which must be included), the deferred remuneration terms may also provide that the award of the deferred remuneration is partly revoked if specified conditions are not met on or before the vesting date.
- (3) Chapter 2 does not apply by reason of the relevant step mentioned in subsection (1)(g).
- (4) In the following subsections “the earmarked deferred remuneration” means the deferred remuneration so far as, on the taking of the relevant step mentioned in subsection (1)(g), it is represented by the sum of money or asset which is the subject of the step as mentioned in subsection (1)(h).
- (5) Subsection (6) applies if, at any time (“the relevant time”)—
- (a) any sum of money or asset held by or on behalf of P on the basis mentioned in section 554B(1)(a) or (b) which represents any of the earmarked deferred remuneration ceases to represent that earmarked deferred remuneration or a part of it (because the remuneration is to be provided to A in another way or its award has been revoked or for any other reason), but
 - (b) the sum of money or asset continues to be held by or on behalf of P on the basis mentioned in section 554B(1)(a) or (b).
- (6) This Part has effect as if a relevant step within section 554B were taken at the relevant time—
- (a) the subject of which is—
 - (i) the sum of money or asset mentioned in subsection (5), and
 - (ii) a just and reasonable proportion of any relevant income (see subsection (12)), and
 - (b) by reason of which Chapter 2 is to apply (subject only to section 554A(4)).

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (7) Subsection (8) applies if neither subsection (10) nor subsection (11) applies to the earmarked deferred remuneration or to a part of it.
- (8) This Part has effect as if a relevant step within section 554B were taken at the end of the vesting date—
 - (a) the subject of which is—
 - (i) a sum of money of the notional PAYE amount, and
 - (ii) a just and reasonable proportion of any relevant income (see subsection (12)), and
 - (b) by reason of which Chapter 2 is to apply (subject only to section 554A(4)).
- (9) In subsection (8)(a) “the notional PAYE amount” means the amount which the payment of PAYE employment income would have been had, as the case may be—
 - (a) the earmarked deferred remuneration, or
 - (b) the part of it to which neither subsection (10) nor subsection (11) applies, been provided to A at the end of the vesting date in a way which is, for the purposes of Part 11, a payment of PAYE employment income of A in respect of A's employment with B.
- (10) This subsection applies to the earmarked deferred remuneration so far as it is provided to A before the end of the vesting date in a way which is, for the purposes of Part 11, a payment of PAYE employment income of A in respect of A's employment with B.
- (11) This subsection applies to the earmarked deferred remuneration so far as, before the end of the vesting date, the award of the earmarked deferred remuneration is revoked in accordance with the deferred remuneration terms.
- (12) In subsections (6)(a)(ii) and (8)(a)(ii) “relevant income” means any income—
 - (a) which, before the relevant time or the end of the vesting date (as the case may be)—
 - (i) arises (directly or indirectly) from a sum of money or asset held by or on behalf of P representing any of the earmarked deferred remuneration, and
 - (ii) is the subject of a relevant step within section 554B taken by P by reason of which Chapter 2 would apply apart from section 554Q, and
 - (b) which, at the relevant time or the end of the vesting date (as the case may be), continues to be held by or on behalf of P on the basis mentioned in section 554B(1)(a) or (b).

554I Exclusions: introduction to sections 554J to 554M

- (1) Sections 554J and 554K are about steps within section 554B taken in relation to awards of certain shares or securities or of sums of money determined by reference to the market value of certain shares or securities.
- (2) Sections 554L and 554M are about steps within section 554B taken in relation to grants of rights to acquire certain shares or securities or to receive sums of money determined by reference to the market value of certain shares or securities.
- (3) Sections 554J to 554M apply only if B is a company.
- (4) In those sections—

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

“relevant benefits” has the same meaning as in Chapter 2 of Part 6, but ignoring section 393B(2)(a),

“relevant shares” means—

- (a) shares (including stock) in B,
- (b) instruments issued by B which are securities for the purposes of Chapters 1 to 5 of Part 7 within section 420(1)(b), or
- (c) units in a collective investment scheme (as defined in section 420(2)) managed by B which are securities for the purposes of Chapters 1 to 5 of Part 7 within section 420(1)(e), and

“trading company” means a company the business of which consists wholly or mainly in the carrying on of a trade.

- (5) If B is a member of a group of companies, in the definition of “relevant shares” in subsection (4) references to B are to be read as including references to any other company which is a member of that group.

- (6) For the purposes of sections 554K and 554M an exit event occurs if—

- (a) shares in the relevant company are admitted to trading on a stock exchange,
- (b) all the shares in the relevant company, or a substantial proportion of them, are disposed of to persons none of whom is connected with any of the persons making any disposal,
- (c) if the relevant company is a trading company (as defined in subsection (4)), the company's trade, or a substantial proportion of it, is transferred to a person who is not a relevant connected person,
- (d) the relevant company's assets, or a substantial proportion of them, are disposed of to a person who is not a relevant connected person,
- (e) the winding up of the relevant company starts, or
- (f) a person (“P”) who controls the relevant company ceases to control it, so long as no person connected with P starts to control it.

- (7) For the purposes of subsection (6)—

- (a) “the relevant company” means—

- (i) if the relevant shares mentioned in section 554K(1)(a)(i) or (ii) or 554M(1)(a)(i) or (ii) are shares (including stock), the company in which they are shares, or
- (ii) if the relevant shares so mentioned are instruments within paragraph (b) of the definition of “relevant shares” in subsection (4), the company by which those instruments are issued,

- (b) “relevant connected person” means a person who—

- (i) is connected with the relevant company, or
- (ii) is a shareholder in the relevant company or is connected with a shareholder in the relevant company,

- (c) the relevant company's trade, or a substantial proportion of it, is transferred to another person if—

- (i) the relevant company ceases to carry on the trade or the proportion of it, and
- (ii) on that occurring, the other person starts to carry on the trade or the proportion of it, and

- (d) section 12(7) of CTA 2009 applies for the purpose of determining when the winding up of the relevant company starts.

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

554J Exclusions: earmarking for employee share schemes (1)

- (1) This section applies if—
- (a) there is an arrangement (“B’s employee share scheme”) under which, in respect of A’s employment with B, an award may be made to A of—
 - (i) relevant shares, or
 - (ii) a sum of money the amount of which is to be determined by reference to the market value of any relevant shares at the time the sum is to be paid,
 - (b) the main purpose of the award of the relevant shares or sum of money would not be the provision of relevant benefits,
 - (c) the award of the relevant shares or sum of money would be on terms (“the deferred award terms”) the main purpose of which is to defer the receipt of the shares by A, or the payment of the sum of money to A, to a specified date (“the vesting date”) which is after the date (“the award date”) on which the award is made, while providing that the award is revoked if specified conditions are not met on or before the vesting date,
 - (d) the vesting date would not be more than ten years after the award date, and
 - (e) as at the award date, there would be a reasonable chance that the award of the relevant shares or sum of money will be revoked because not all the specified conditions will be met on or before the vesting date.
- (2) In addition to the provision relating to revocation required by subsection (1)(c) (which must be included), the deferred award terms may also provide that the award of the relevant shares or sum of money is partly revoked if specified conditions are not met on or before the vesting date.
- (3) Chapter 2 does not apply by reason of a relevant step within section 554B (by reason of which it would otherwise apply) taken by a person (“P”) if—
- (a) the subject of the relevant step is relevant shares (“earmarked shares”) which are earmarked, or otherwise start being held, solely with a view to the meeting of—
 - (i) an award of relevant shares or a sum of money made to A under B’s employee share scheme as mentioned in subsection (1)(a) in relation to which the requirements of subsection (1)(b) to (e) are met, or
 - (ii) an award of relevant shares or a sum of money which is expected to be made to A under B’s employee share scheme as mentioned in subsection (1)(a) and in relation to which the requirements of subsection (1)(b) to (e) would be met,
 - (b) the number of relevant shares of any type which are earmarked shares does not exceed the maximum number of relevant shares of that type which might reasonably be expected to be needed for meeting the award or expected award, and
 - (c) there is no connection (direct or indirect) between the relevant step and a tax avoidance arrangement.
- (4) If the relevant step mentioned in subsection (3) is taken in relation to an expected award as mentioned in subsection (3)(a)(ii), subsection (5) applies if—
- (a) the award is not made before the end of the date (“the final award date”) falling immediately after the period of three months starting with the date on which P takes the relevant step, and

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (b) as at the end of the final award date, any of the earmarked shares continue to be held by or on behalf of P solely on the basis mentioned in subsection (3)(a).
- (5) This Part has effect as if a relevant step within section 554B were taken at the end of the final award date—
 - (a) the subject of which is—
 - (i) the shares which continue to be held as mentioned in subsection (4)(b), and
 - (ii) any relevant income in relation to those shares (see subsection (13)), and
 - (b) by reason of which Chapter 2 is to apply (subject only to section 554A(4)).
- (6) Subsection (7) applies if, at any time (“the relevant time”)—
 - (a) any of the earmarked shares cease to be held by or on behalf of P solely on the basis mentioned in subsection (3)(a), but
 - (b) the shares continue to be held by or on behalf of P on the basis mentioned in section 554B(1)(a) or (b).
- (7) This Part has effect as if a relevant step within section 554B were taken at the relevant time—
 - (a) the subject of which is—
 - (i) the shares mentioned in subsection (6), and
 - (ii) any relevant income in relation to those shares (see subsection (13)), and
 - (b) by reason of which Chapter 2 is to apply (subject only to section 554A(4)).
- (8) Subsection (9) applies if—
 - (a) the relevant step mentioned in subsection (3) is taken in relation to an award which has been made as mentioned in subsection (3)(a)(i), or
 - (b) the relevant step mentioned in subsection (3) is taken in relation to an expected award as mentioned in subsection (3)(a)(ii) and the award is made before the end of the final award date.
- (9) This Part has effect as if a relevant step within section 554B were taken at the end of the vesting date—
 - (a) the subject of which is—
 - (i) any of the earmarked shares to which none of subsections (10) to (12) applies, and
 - (ii) any relevant income in relation to any of the earmarked shares mentioned in sub-paragraph (i) (see subsection (13)), and
 - (b) by reason of which Chapter 2 is to apply (subject only to section 554A(4)).
- (10) This subsection applies to any earmarked shares if—
 - (a) A receives the shares before the end of the vesting date, and
 - (b) the receipt of the shares by A gives rise to employment income of A which is chargeable to income tax or which is exempt income.
- (11) This subsection applies to any earmarked shares if—
 - (a) the sum of money mentioned in subsection (1)(a)(ii) (or a part of it) is paid to A before the end of the vesting date,
 - (b) the payment of the sum to A gives rise to employment income of A which is chargeable to income tax or which is exempt income, and

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (c) the payment represents the proceeds of the disposal of the shares, or the payment is made from another source and, correspondingly, the shares are no longer held by any person in relation to the award.
- (12) This subsection applies to any earmarked shares if—
- (a) before the end of the vesting date, the award (or any part of it) is revoked in accordance with the deferred award terms, and
 - (b) correspondingly, the shares are no longer held by any person in relation to the award.
- (13) In subsections (5)(a)(ii), (7)(a)(ii) and (9)(a)(ii) “relevant income”, in relation to any earmarked shares, means any income—
- (a) which, before the relevant step is treated as being taken by subsection (5), (7) or (9) (as the case may be)—
 - (i) arises (directly or indirectly) from the shares, and
 - (ii) is the subject of a relevant step within section 554B taken by P by reason of which Chapter 2 would apply apart from section 554Q, and
 - (b) which, at the time the relevant step is treated as being taken, continues to be held by or on behalf of P on the basis mentioned in section 554B(1)(a) or (b).

554K Exclusions: earmarking for employee share schemes (2)

- (1) This section applies if—
- (a) there is an arrangement (“B’s employee share scheme”) under which, in respect of A’s employment with B, an award may be made to A of—
 - (i) relevant shares, or
 - (ii) a sum of money the amount of which is to be determined by reference to the market value of any relevant shares at the time the sum is to be paid,
 - (b) the main purpose of the award would not be the provision of relevant benefits,
 - (c) the relevant shares would be—
 - (i) shares (including stock) in, or
 - (ii) instruments within paragraph (b) of the definition of “relevant shares” in section 554I(4) issued by, a trading company or a company which controls a trading company,
 - (d) the award would be on terms the main purpose of which is to ensure—
 - (i) that the relevant shares are received, or
 - (ii) that the sum of money is paid,only if a specified exit event, or an exit event within a specified description, occurs, and
 - (e) as at the time the award is made, there would be a reasonable chance that the specified exit event, or an exit event within the specified description, will occur.
- (2) Chapter 2 does not apply by reason of a relevant step within section 554B (by reason of which it would otherwise apply) taken by a person (“P”) if—
- (a) the subject of the relevant step is relevant shares (“earmarked shares”) which are earmarked, or otherwise start being held, solely with a view to the meeting of—

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (i) an award of relevant shares or a sum of money made to A under B's employee share scheme as mentioned in subsection (1)(a) in relation to which the requirements of subsection (1)(b) to (e) are met, or
 - (ii) an award of relevant shares or a sum of money which is expected to be made to A under B's employee share scheme as mentioned in subsection (1)(a) and in relation to which the requirements of subsection (1)(b) to (e) would be met,
 - (b) the number of relevant shares of any type which are earmarked shares does not exceed the maximum number of relevant shares of that type which might reasonably be expected to be needed for meeting the award or expected award, and
 - (c) there is no connection (direct or indirect) between the relevant step and a tax avoidance arrangement.
- (3) If the relevant step mentioned in subsection (2) is taken in relation to an expected award as mentioned in subsection (2)(a)(ii), subsection (4) applies if—
- (a) the award is not made before the end of the date (“the final award date”) falling immediately after the period of three months starting with the date on which P takes the relevant step, and
 - (b) as at the end of the final award date, any of the earmarked shares continue to be held by or on behalf of P solely on the basis mentioned in subsection (2)(a).
- (4) This Part has effect as if a relevant step within section 554B were taken at the end of the final award date—
- (a) the subject of which is—
 - (i) the shares which continue to be held as mentioned in subsection (3)(b), and
 - (ii) any relevant income in relation to those shares (see subsection (12)), and
 - (b) by reason of which Chapter 2 is to apply (subject only to section 554A(4)).
- (5) Subsection (6) applies if, at any time (“the relevant time”)—
- (a) any of the earmarked shares cease to be held by or on behalf of P solely on the basis mentioned in subsection (2)(a), but
 - (b) the shares continue to be held by or on behalf of P on the basis mentioned in section 554B(1)(a) or (b).
- (6) This Part has effect as if a relevant step within section 554B were taken at the relevant time—
- (a) the subject of which is—
 - (i) the shares mentioned in subsection (5), and
 - (ii) any relevant income in relation to those shares (see subsection (12)), and
 - (b) by reason of which Chapter 2 is to apply (subject only to section 554A(4)).
- (7) Subsection (8) applies if—
- (a) the relevant step mentioned in subsection (2) is taken in relation to an award which has been made as mentioned in subsection (2)(a)(i), or
 - (b) the relevant step mentioned in subsection (2) is taken in relation to an expected award as mentioned in subsection (2)(a)(ii) and the award is made before the end of the final award date,

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- and the specified exit event, or an exit event within the specified description, occurs.
- (8) This Part has effect as if a relevant step within section 554B were taken at the end of the exit period—
- (a) the subject of which is—
 - (i) any of the earmarked shares to which neither subsection (9) nor subsection (10) applies, and
 - (ii) any relevant income in relation to any of the earmarked shares mentioned in sub-paragraph (i) (see subsection (12)), and
 - (b) by reason of which Chapter 2 is to apply (subject only to section 554A(4)).
- (9) This subsection applies to any earmarked shares if—
- (a) A receives the shares before the end of the exit period, and
 - (b) the receipt of the shares by A gives rise to employment income of A which is chargeable to income tax or which is exempt income.
- (10) This subsection applies to any earmarked shares if—
- (a) the sum of money mentioned in subsection (1)(a)(ii) (or a part of it) is paid to A before the end of the exit period,
 - (b) the payment of the sum to A gives rise to employment income of A which is chargeable to income tax or which is exempt income, and
 - (c) the payment represents the proceeds of the disposal of the shares, or the payment is made from another source and, correspondingly, the shares are no longer held by any person in relation to the award.
- (11) In subsections (8), (9)(a) and (10)(a) “the exit period” means the period of six months starting with the date on which the exit event occurs.
- (12) In subsections (4)(a)(ii), (6)(a)(ii) and (8)(a)(ii) “relevant income”, in relation to any earmarked shares, means any income—
- (a) which, before the relevant step is treated as being taken by subsection (4), (6) or (8) (as the case may be)—
 - (i) arises (directly or indirectly) from the shares, and
 - (ii) is the subject of a relevant step within section 554B taken by P by reason of which Chapter 2 would apply apart from section 554Q, and
 - (b) which, at the time the relevant step is treated as being taken, continues to be held by or on behalf of P on the basis mentioned in section 554B(1)(a) or (b).

554L Exclusions: earmarking for employee share schemes (3)

- (1) This section applies if—
- (a) there is an arrangement (“B’s employee share scheme”) under which, in respect of A’s employment with B, a right (“a relevant share option”) may be granted to A—
 - (i) to acquire relevant shares, or
 - (ii) to receive a sum of money the amount of which is to be determined by reference to the market value of any relevant shares at the time the sum is to be paid,
 - (b) the main purpose of the grant of the relevant share option would not be the provision of relevant benefits,

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (c) the grant would be made on terms (“the deferred grant terms”) the main purpose of which is to ensure that the relevant share option is not exercisable by A before a specified date (“the vesting date”) which is after the date (“the grant date”) on which the grant is made, while providing that the relevant share option is not to be exercisable at all by A if specified conditions are not met on or before the vesting date,
 - (d) the vesting date would not be more than ten years after the grant date, and
 - (e) as at the grant date, there would be a reasonable chance that the relevant share option will not be exercisable at all by A because not all the specified conditions will be met on or before the vesting date.
- (2) In addition to the provision relating to revocation required by subsection (1)(c) (which must be included), the deferred grant terms may also provide that the relevant share option may be exercised by A only in part if specified conditions are not met on or before the vesting date.
- (3) Chapter 2 does not apply by reason of a relevant step within section 554B (by reason of which it would otherwise apply) taken by a person (“P”) if—
 - (a) the subject of the relevant step is relevant shares (“earmarked shares”) which are earmarked, or otherwise start being held, solely with a view to providing relevant shares, or paying a sum of money, pursuant to—
 - (i) a relevant share option granted to A under B's employee share scheme as mentioned in subsection (1)(a) in relation to which the requirements of subsection (1)(b) to (e) are met, or
 - (ii) a relevant share option which is expected to be granted to A under B's employee share scheme as mentioned in subsection (1)(a) and in relation to which the requirements of subsection (1)(b) to (e) would be met,
 - (b) the number of relevant shares of any type which are earmarked shares does not exceed the maximum number of relevant shares of that type which might reasonably be expected to be needed for providing shares, or paying a sum of money, pursuant to the relevant share option which is granted or expected to be granted, and
 - (c) there is no connection (direct or indirect) between the relevant step and a tax avoidance arrangement.
- (4) If the relevant step mentioned in subsection (3) is taken in relation to an expected grant of a relevant share option as mentioned in subsection (3)(a)(ii), subsection (5) applies if—
 - (a) the grant is not made before the end of the date (“the final grant date”) falling immediately after the period of three months starting with the date on which P takes the relevant step, and
 - (b) as at the end of the final grant date, any of the earmarked shares continue to be held by or on behalf of P solely on the basis mentioned in subsection (3)(a).
- (5) This Part has effect as if a relevant step within section 554B were taken at the end of the final grant date—
 - (a) the subject of which is—
 - (i) the shares which continue to be held as mentioned in subsection (4) (b), and
 - (ii) any relevant income in relation to those shares (see subsection (15)), and

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (b) by reason of which Chapter 2 is to apply (subject only to section 554A(4)).
- (6) Subsection (7) applies if, at any time (“the relevant time”)—
 - (a) any of the earmarked shares cease to be held by or on behalf of P solely on the basis mentioned in subsection (3)(a), but
 - (b) the shares continue to be held by or on behalf of P on the basis mentioned in section 554B(1)(a) or (b).
- (7) This Part has effect as if a relevant step within section 554B were taken at the relevant time—
 - (a) the subject of which is—
 - (i) the shares mentioned in subsection (6), and
 - (ii) any relevant income in relation to those shares (see subsection (15)), and
 - (b) by reason of which Chapter 2 is to apply (subject only to section 554A(4)).
- (8) Subsection (9) applies if—
 - (a) the relevant step mentioned in subsection (3) is taken in relation to a grant of a relevant share option made as mentioned in subsection (3)(a)(i), or
 - (b) the relevant step mentioned in subsection (3) is taken in relation to an expected grant of a relevant share option as mentioned in subsection (3)(a)(ii) and the grant is made before the end of the final grant date.
- (9) This Part has effect as if a relevant step within section 554B were taken at the end of the final exercise date—
 - (a) the subject of which is—
 - (i) any of the earmarked shares to which none of subsections (10) to (13) applies, and
 - (ii) any relevant income in relation to any of the earmarked shares mentioned in sub-paragraph (i) (see subsection (15)), and
 - (b) by reason of which Chapter 2 is to apply (subject only to section 554A(4)).
- (10) This subsection applies to any earmarked shares if—
 - (a) the relevant share option becomes exercisable (in whole or in part) by A before the end of the vesting date,
 - (b) A exercises the option (wholly or partly) before the end of the final exercise date and, as a result, receives the shares, and
 - (c) the receipt of the shares gives rise to employment income of A—
 - (i) which is chargeable to income tax or would be chargeable apart from [F²⁶Chapter 5B of Part 2], or
 - (ii) which is exempt income.
- (11) This subsection applies to any earmarked shares if—
 - (a) the relevant share option becomes exercisable (in whole or in part) by A before the end of the vesting date,
 - (b) A exercises the option (wholly or partly) before the end of the final exercise date and, as a result, a sum of money is paid to A as mentioned in subsection (1)(a)(ii),
 - (c) the payment of the sum gives rise to employment income of A—
 - (i) which is chargeable to income tax or would be chargeable apart from section 474, or

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (ii) which is exempt income, and
 - (d) the payment represents the proceeds of the disposal of the shares, or the payment is made from another source and, correspondingly, the shares are no longer held by any person in relation to the relevant share option.
- (12) This subsection applies to any earmarked shares if—
- (a) in accordance with the deferred grant terms, before the end of the vesting date, the relevant share option ceases to be exercisable by A (in whole or in part), and
 - (b) correspondingly, the shares are no longer held by any person in relation to the relevant share option.
- (13) This subsection applies to any earmarked shares if—
- (a) the relevant share option becomes exercisable by A (in whole or in part) before the end of the vesting date but the option lapses (in whole or in part) before the end of the final exercise date, and
 - (b) correspondingly, the shares are no longer held by any person in relation to the relevant share option.
- (14) In subsections (9) to (13) “the final exercise date” means the date which is ten years after the grant date.
- (15) In subsections (5)(a)(ii), (7)(a)(ii) and (9)(a)(ii) “relevant income”, in relation to any earmarked shares, means any income—
- (a) which, before the relevant step is treated as being taken by subsection (5), (7) or (9) (as the case may be)—
 - (i) arises (directly or indirectly) from the shares, and
 - (ii) is the subject of a relevant step within section 554B taken by P by reason of which Chapter 2 would apply apart from section 554Q, and
 - (b) which, at the time the relevant step is treated as being taken, continues to be held by or on behalf of P on the basis mentioned in section 554B(1)(a) or (b).

Textual Amendments

F26 Words in s. 554L(10)(c)(i) substituted (with effect in accordance with Sch. 9 para. 48 of the amending Act) by [Finance Act 2014 \(c. 26\)](#), **Sch. 9 paras. 18, 47**

554M Exclusions: earmarking for employee share schemes (4)

- (1) This section applies if—
- (a) there is an arrangement (“B’s employee share scheme”) under which, in respect of A’s employment with B, a right (“a relevant share option”) may be granted to A—
 - (i) to acquire relevant shares, or
 - (ii) to receive a sum of money the amount of which is to be determined by reference to the market value of any relevant shares at the time the sum is to be paid,
 - (b) the main purpose of the grant of the relevant share option would not be the provision of relevant benefits,
 - (c) the relevant shares would be—

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (i) shares (including stock) in, or
 - (ii) instruments within paragraph (b) of the definition of “relevant shares” in section 554I(4) issued by,
 - a trading company or a company which controls a trading company,
 - (d) the grant would be made on terms (“the deferred grant terms”) the main purpose of which is to ensure that the relevant share option is exercisable by A only if a specified exit event, or an exit event within a specified description, occurs, and
 - (e) as at the time the grant is made, there would be a reasonable chance that the specified exit event, or an exit event within the specified description, will occur.
- (2) Chapter 2 does not apply by reason of a relevant step within section 554B (by reason of which it would otherwise apply) taken by a person (“P”) if—
- (a) the subject of the relevant step is relevant shares (“earmarked shares”) which are earmarked, or otherwise start being held, solely with a view to providing relevant shares, or paying a sum of money, pursuant to—
 - (i) a relevant share option granted to A under B's employee share scheme as mentioned in subsection (1)(a) in relation to which the requirements of subsection (1)(b) to (e) are met, or
 - (ii) a relevant share option which is expected to be granted to A under B's employee share scheme as mentioned in subsection (1)(a) and in relation to which the requirements of subsection (1)(b) to (e) would be met,
 - (b) the number of relevant shares of any type which are earmarked shares does not exceed the maximum number of relevant shares of that type which might reasonably be expected to be needed for providing shares, or paying a sum of money, pursuant to the relevant share option which is granted or expected to be granted, and
 - (c) there is no connection (direct or indirect) between the relevant step and a tax avoidance arrangement.
- (3) If the relevant step mentioned in subsection (2) is taken in relation to an expected grant of a relevant share option as mentioned in subsection (2)(a)(ii), subsection (4) applies if—
- (a) the grant is not made before the end of the date (“the final grant date”) falling immediately after the period of three months starting with the date on which P takes the relevant step, and
 - (b) as at the end of the final grant date, any of the earmarked shares continue to be held by or on behalf of P solely on the basis mentioned in subsection (2)(a).
- (4) This Part has effect as if a relevant step within section 554B were taken at the end of the final grant date—
- (a) the subject of which is—
 - (i) the shares which continue to be held as mentioned in subsection (3)(b), and
 - (ii) any relevant income in relation to those shares (see subsection (14)), and
 - (b) by reason of which Chapter 2 is to apply (subject only to section 554A(4)).
- (5) Subsection (6) applies if, at any time (“the relevant time”)—

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (a) any of the earmarked shares cease to be held by or on behalf of P solely on the basis mentioned in subsection (2)(a), but
 - (b) the shares continue to be held by or on behalf of P on the basis mentioned in section 554B(1)(a) or (b).
- (6) This Part has effect as if a relevant step within section 554B were taken at the relevant time—
 - (a) the subject of which is—
 - (i) the shares mentioned in subsection (5), and
 - (ii) any relevant income in relation to those shares (see subsection (14)), and
 - (b) by reason of which Chapter 2 is to apply (subject only to section 554A(4)).
- (7) Subsection (8) applies if—
 - (a) the relevant step mentioned in subsection (2) is taken in relation to a grant of a relevant share option made as mentioned in subsection (2)(a)(i), or
 - (b) the relevant step mentioned in subsection (2) is taken in relation to an expected grant of a relevant share option as mentioned in subsection (2)(a)(ii) and the grant is made before the end of the final grant date,

and the specified exit event, or an exit event within the specified description, occurs.
- (8) This Part has effect as if a relevant step within section 554B were taken at the end of the exit period—
 - (a) the subject of which is—
 - (i) any of the earmarked shares to which none of subsections (9) to (11) applies, and
 - (ii) any relevant income in relation to any of the earmarked shares mentioned in sub-paragraph (i) (see subsection (14)), and
 - (b) by reason of which Chapter 2 is to apply (subject only to section 554A(4)).
- (9) This subsection applies to any earmarked shares if—
 - (a) A exercises the relevant share option (wholly or partly) before the end of the exit period and, as a result, receives the shares, and
 - (b) the receipt of the shares gives rise to employment income of A—
 - (i) which is chargeable to income tax or would be chargeable apart from [F27Chapter 5B of Part 2], or
 - (ii) which is exempt income.
- (10) This subsection applies to any earmarked shares if—
 - (a) A exercises the relevant share option (wholly or partly) before the end of the exit period and, as a result, a sum of money is paid to A as mentioned in subsection (1)(a)(ii),
 - (b) the payment of the sum gives rise to employment income of A—
 - (i) which is chargeable to income tax or would be chargeable apart from [F28Chapter 5B of Part 2], or
 - (ii) which is exempt income, and
 - (c) the payment represents the proceeds of the disposal of the shares, or the payment is made from another source and, correspondingly, the shares are no longer held by any person in relation to the relevant share option.
- (11) This subsection applies to any earmarked shares if—

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (a) the relevant share option becomes exercisable by A before the end of the exit period but the option lapses (in whole or in part) at or before the end of that period, and
 - (b) correspondingly, the shares are no longer held by any person in relation to the relevant share option.
- (12) In subsections (8), (9)(a), (10)(a) and (11)(a) “the exit period” means—
- (a) the period of six months starting with the date on which the exit event occurs, or
 - (b) if it ends earlier, the period during which the relevant share option is exercisable by A in accordance with the deferred grant terms.
- (13) If the exit event is an event within section 554I(6)(a), in subsection (12)(a) the reference to six months is to be read as a reference to five years.
- (14) In subsections (4)(a)(ii), (6)(a)(ii) and (8)(a)(ii) “relevant income”, in relation to any earmarked shares, means any income—
- (a) which, before the relevant step is treated as being taken by subsection (4), (6) or (8) (as the case may be)—
 - (i) arises (directly or indirectly) from the shares, and
 - (ii) is the subject of a relevant step within section 554B taken by P by reason of which Chapter 2 would apply apart from section 554Q, and
 - (b) which, at the time the relevant step is treated as being taken, continues to be held by or on behalf of P on the basis mentioned in section 554B(1)(a) or (b).

Textual Amendments

- F27** Words in s. 554M(9)(b)(i) substituted (with effect in accordance with Sch. 9 para. 48 of the amending Act) by [Finance Act 2014 \(c. 26\)](#), [Sch. 9 paras. 19\(2\), 47](#)
- F28** Words in s. 554M(10)(b)(i) substituted (with effect in accordance with Sch. 9 para. 48 of the amending Act) by [Finance Act 2014 \(c. 26\)](#), [Sch. 9 paras. 19\(3\), 47](#)

554N Exclusions: other cases involving employment-related securities etc

- (1) Chapter 2 does not apply by reason of a relevant step the subject of which is employment-related securities if—
- (a) by virtue of the step, the securities are acquired by a person, and
 - (b) section 425(2) applies^{F29} ... to the acquisition.
- (2) Chapter 2 does not apply by reason of a relevant step the subject of which is an employment-related securities option if—
- (a) by virtue of the step, the option is acquired by a person, and
 - (b) section 475(1) applies^{F30} ... to the acquisition.
- (3) Terms used in subsection (1) or (2) have the same meaning as they have in Chapter 2 or 5 of Part 7 (as the case may be).
- (4) Chapter 2 does not apply by reason of an event within subsection (5) if by virtue of the event an amount counts as employment income of A in respect of A's employment with B.
- (5) The events within this subsection are—

***Changes to legislation:** There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)*

- (a) a chargeable event for the purposes of section 426, 438 or 476,
 - (b) an event which gives rise to the discharge of a notional loan for the purposes of section 446U, or
 - (c) a disposal to which Chapter 3D of Part 7 applies.
- (6) Chapter 2 does not apply by reason of an event to which subsection (4) would apply apart from section 421B(6),^{F31} ... 429, [^{F32}430A(5)(b),] 443^{F33} ... or 477(2) or apart from an election under section 430 or 431.
- (7) Subsection (11) applies if there is an acquisition of an asset within section 554C(4)(a) or (b) (“the relevant asset”) and—
 - (a) relevant consideration is given by A for the relevant asset of an amount equal to or greater than the market value of the relevant asset at the time of the acquisition, or
 - (b) ignoring any relevant consideration given for the relevant asset, the acquisition gives rise (or would give rise) to earnings of A within Chapter 1 of Part 3 [^{F34}, or an amount treated under section 226A as earnings of A,] from A's employment with B—
 - (i) the amount of which is equal to or greater than the market value of the relevant asset at the time of the acquisition, and
 - (ii) which are not exempt income.
- (8) In subsection (7) “relevant consideration”—
 - (a) means consideration—
 - (i) which is given before, or at or about, the time of the acquisition, and
 - (ii) which is money or money's worth, but
 - (b) does not include—
 - (i) a promise to do anything, or
 - (ii) the performance of any duties of, or in connection with, an employment.
- (9) If section 437(1) or 452(1) applies in relation to the acquisition, or would apply if Chapter 3 or 4A of Part 7 (as the case may be) applied in relation to the acquisition, in subsection (7) references to the market value of the relevant asset are to be read as references to that value determined on the basis mentioned in section 437(1) or 452(1) (as the case may be).
- (10) Subsection (11) also applies if—
 - (a) there is an acquisition of an asset within section 554C(4)(a) or (b) (“the relevant asset”),
 - (b) the acquisition is pursuant to an employment-related securities option (within the meaning of Chapter 5 of Part 7^{F35}...) acquired by reason of A's employment, or former or prospective employment, with B, and
 - (c) the acquisition is a chargeable event for the purposes of section 476^{F36}....
- (11) Chapter 2 does not apply by reason of a relevant step taken after the acquisition if—
 - (a) the subject of the relevant step is the relevant asset, and
 - (b) there is no connection (direct or indirect) between the relevant step and a tax avoidance arrangement.
- (12) In subsections (7) to (11) “acquisition” is to be read in accordance with section 421B(2)
 - (a).

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (13) Chapter 2 does not apply by reason of a relevant step within section 554C(1)(a) taken by a person if—
- (a) the payment of the sum of money is by way of a loan (“the relevant loan”),
 - (b) the relevant loan is made and used solely for the purpose of enabling A to exercise an employment-related securities option (within the meaning of Chapter 5 of Part 7),
 - (c) the exercise of the option by A gives rise to employment income of A in respect of A's employment with B—
 - (i) which is chargeable to income tax or would be chargeable apart from ^{F37}Chapter 5B of Part 2], or
 - (ii) which is exempt income, and
 - (d) there is no connection (direct or indirect) between the relevant step and a tax avoidance arrangement.
- (14) Subsection (15) applies if—
- (a) apart from subsection (13), Chapter 2 would apply by reason of the relevant step mentioned in that subsection, and
 - (b) by the end of the relevant period, the relevant loan has not been fully repaid.
- (15) This Part has effect as if a relevant step within section 554C(1)(a) were taken at the end of the relevant period—
- (a) the subject of which is a sum of money of an amount equal to the outstanding amount of the relevant loan as at the end of the relevant period,
 - (b) in relation to which the relevant person (within the meaning of section 554C(1)) is the person to whom the relevant loan is made, and
 - (c) by reason of which Chapter 2 is to apply.
- (16) In subsections (14) and (15) “the relevant period” means the period of 40 days starting with the day on which the relevant step mentioned in subsection (13) is taken.

[See paragraph 31 of Schedule 11 to F(No. 2)A 2017 for provision about exclusions
^{F38}(17) where a loan is made for the purpose of enabling the exercise of an employment-related securities option and the relevant step is within paragraph 1 of that Schedule.]

Textual Amendments

- F29** Words in s. 554N(1)(b) omitted (with effect in accordance with Sch. 9 para. 48 of the amending Act) by virtue of [Finance Act 2014 \(c. 26\)](#), [Sch. 9 paras. 20\(2\), 47](#)
- F30** Words in s. 554N(2)(b) omitted (with effect in accordance with Sch. 9 para. 48 of the amending Act) by virtue of [Finance Act 2014 \(c. 26\)](#), [Sch. 9 paras. 20\(3\), 47](#)
- F31** Word in s. 554N(6) omitted (with effect in accordance with Sch. 9 para. 48 of the amending Act) by virtue of [Finance Act 2014 \(c. 26\)](#), [Sch. 9 paras. 20\(4\)\(a\), 47](#)
- F32** Word in s. 554N(6) inserted (17.7.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 9 para. 38](#)
- F33** Word in s. 554N(6) omitted (with effect in accordance with Sch. 9 para. 48 of the amending Act) by virtue of [Finance Act 2014 \(c. 26\)](#), [Sch. 9 paras. 20\(4\)\(b\), 47](#)
- F34** Words in s. 554N(7)(b) inserted (1.9.2013) by [Finance Act 2013 \(c. 29\)](#), [Sch. 23 paras. 15, 38](#); [S.I. 2013/1755, art. 2](#)
- F35** Words in s. 554N(10)(b) omitted (with effect in accordance with Sch. 9 para. 48 of the amending Act) by virtue of [Finance Act 2014 \(c. 26\)](#), [Sch. 9 paras. 20\(5\)\(a\), 47](#)
- F36** Words in s. 554N(10)(c) omitted (with effect in accordance with Sch. 9 para. 48 of the amending Act) by virtue of [Finance Act 2014 \(c. 26\)](#), [Sch. 9 paras. 20\(5\)\(b\), 47](#)

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- F37** Words in s. 554N(13)(c)(i) substituted (with effect in accordance with Sch. 9 para. 48 of the amending Act) by [Finance Act 2014 \(c. 26\)](#), [Sch. 9 paras. 20\(6\), 47](#)
- F38** S. 554N(17) inserted (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 11 para. 32](#)

554O Exclusions: employee car ownership schemes

- (1) This section applies if—
 - (a) there is an arrangement (“the car ownership arrangement”) which—
 - (i) provides for A to purchase a new car from another person (“P”) using a loan (“the car loan”) to be made to A by [^{F39}an authorised lender] ,
 - (ii) specifies the date (“the repayment date”) by which the car loan must be fully repaid which must be no later than four years after the date on which the car loan is made, and
 - (iii) permits A, in order to obtain funds to repay the car loan, to sell the car back to P on a specified date at a specified price based on an estimate (made at the time the car ownership arrangement is made) of the likely outstanding amount of the car loan on the specified date, and
 - (b) as provided for by the car ownership arrangement, A purchases the car using the car loan.
- (2) Chapter 2 does not apply by reason of a relevant step taken for the sole purpose of—
 - (a) the purchase of the car or its sale-back as provided for by the car ownership arrangement, or
 - (b) the making of the car loan as so provided,
 so long as the car ownership arrangement is not a tax avoidance arrangement and there is no other connection (direct or indirect) between the relevant step and a tax avoidance arrangement.
- (3) Subsection (4) applies if—
 - (a) apart from subsection (2), Chapter 2 would apply by reason of the making of the car loan, and
 - (b) by the end of the repayment date, the car loan has not been fully repaid.
- (4) This Part has effect as if a relevant step within section 554C(1)(a) were taken at the end of the repayment date—
 - (a) the subject of which is a sum of money of an amount equal to the outstanding amount of the car loan as at the end of the repayment date,
 - (b) in relation to which the relevant person (within the meaning of section 554C(1)) is A, and
 - (c) by reason of which Chapter 2 is to apply.
- (5) In this section—

“car” has the meaning given by section 235(2), and

[^{F40}“authorised lender” means a person who—

 - (a) has permission under Part 4A of the Financial Services and Markets Act 2000 to enter into, or to exercise or have the right to exercise rights and duties under, a contract of the kind mentioned in paragraph 23 of Schedule 2 to that Act, and
 - (b) is not acting as a trustee.]

[The definition of “authorised lender” must be read with—

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- ^{F41}(6) (a) section 22 of the 2000 Act,
(b) any relevant order under that section, and
(c) Schedule 2 to that Act.]

[See paragraph 33 of Schedule 11 to F(No. 2)A 2017 for provision about exclusions for ^{F42}(7) car loans in a case in which the relevant step is within paragraph 1 of that Schedule.]

Textual Amendments

- F39** Words in s. 554O(1)(a)(i) substituted (26.7.2013 for specified purposes, 1.4.2014 in so far as not already in force) by [The Financial Services and Markets Act 2000 \(Regulated Activities\) \(Amendment\) \(No.2\) Order 2013 \(S.I. 2013/1881\)](#), art. 1(2)(6), **Sch. para. 9(a)**
- F40** Words in s. 554O(5) substituted (26.7.2013 for specified purposes, 1.4.2014 in so far as not already in force) by [The Financial Services and Markets Act 2000 \(Regulated Activities\) \(Amendment\) \(No.2\) Order 2013 \(S.I. 2013/1881\)](#), art. 1(2)(6), **Sch. para. 9(b)**
- F41** S. 554O(6) inserted (26.7.2013 for specified purposes, 1.4.2014 in so far as not already in force) by [The Financial Services and Markets Act 2000 \(Regulated Activities\) \(Amendment\) \(No.2\) Order 2013 \(S.I. 2013/1881\)](#), art. 1(2)(6), **Sch. para. 9(c)**
- F42** S. 554O(7) inserted (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 11 para. 34**

^{F43}**554OA Exclusions: transfer of employment-related loans**

- (1) Chapter 2 does not apply by reason of a relevant step taken by a person (“P”) if—
- (a) the step is acquiring a right to payment of an amount equal to the whole or part of a payment made by way of a loan to a relevant person (the “borrower”),
 - (b) the loan, at the time it was made, was an employment-related loan,
 - (c) at the time the relevant step is taken, the section 180 threshold is not exceeded in relation to the loan,
 - (d) at the time the relevant step is taken, the borrower is an employee, or a prospective employee, of P, and
 - (e) there is no connection (direct or indirect) between the relevant step and a tax avoidance arrangement.
- (2) For the purposes of this section, the section 180 threshold is not exceeded in relation to a loan if, at all times in the relevant tax year—
- (a) the amount outstanding on the loan, or
 - (b) if two or more employment-related loans are made by the same employer, the aggregate of the amount outstanding on them,
- does not exceed the amount specified at the end of section 180(2) (normal threshold for benefit of a loan to be treated as earnings).
- (3) Subsection (4) applies if—
- (a) two or more employment-related loans are made by the same employer, and
 - (b) during the relevant tax year, a person acquires a right to payment of an amount (the “transfer amount”) equal to the whole or part of the payment made by way of any of the loans.
- (4) The transfer amount is to be treated as an “amount outstanding” on that loan for the purposes of subsection (2)(b).
- (5) In this section—

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (a) “employment-related loan” has the same meaning as it has for the purposes of Chapter 7 of Part 3;
- (b) “relevant tax year” means the tax year in which the relevant step is taken.]

[See paragraph 27 of Schedule 11 to F(No. 2)A 2017 for provision about exclusions
^{F44}(6) where a loan is an employment-related loan and the relevant step is within paragraph 1 of that Schedule.]

Textual Amendments

F43 S. 554OA inserted (with effect in accordance with Sch. 6 para. 13 of the amending Act) by [Finance Act 2017 \(c. 10\)](#), [Sch. 6 para. 5](#)

F44 S. 554OA(6) inserted (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 11 para. 28](#)

Modifications etc. (not altering text)

C6 Ss. 554OA(2)-(5) applied (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 11 para. 27\(2\)](#)

554P Exclusions: employment income exemptions under Part 4

- (1) Chapter 2 does not apply by reason of a relevant step if an employment income exemption under Part 4 applies to the subject of the relevant step.
- (2) If the employment income exemption applies to the subject of the relevant step in part only, the relevant step is to be treated for the purposes of this Part as being two separate relevant steps—
 - (a) one in relation to the subject of the step so far as the exemption applies to it, and
 - (b) one in relation to the subject of the step so far as the exemption does not apply to it,
 with subsection (1) applying only in relation to the separate relevant step mentioned in paragraph (a).
- (3) In order to give effect to subsection (2), the sum of money or asset which is the subject of the relevant step is to be apportioned between the two separate relevant steps on a just and reasonable basis.
- (4) In this section “employment income exemption” includes the exemption under section 271.

554Q Exclusions: income arising from earmarked sum or asset

- (1) This section applies if—
 - (a) a sum of money or asset (“sum or asset R”) is held by or on behalf of a person (“P”),
 - (b) income arises from sum or asset R, and
 - (c) when the income arises, it—
 - (i) is received by or on behalf of P, and
 - (ii) is the subject of a relevant step within section 554B taken by P.
- (2) Chapter 2 does not apply by reason of the relevant step mentioned in subsection (1)(c)(ii) if—

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (a) before the income arises, sum or asset R was the subject of a relevant step within section 554B taken by P,
 - (b) Chapter 2 applied by reason of the relevant step mentioned in paragraph (a) in respect of A's employment with B or would have so applied apart from this section or section 554R or any of sections 554H to 554M or section 554T,
 - (c) immediately before the income arises, sum or asset R is still earmarked or otherwise held on the basis mentioned in section 554B(1)(a) or (b), and
 - (d) subsection (3) does not apply.
- (3) This subsection applies if it is reasonable to suppose that, taking into account the type of investments from which the income derives (directly or indirectly), in essence, the income represents a return from sum or asset R which exceeds the return which might be expected applying the assumption that all relevant connected persons are acting at arm's length of each other.
- (4) In subsection (3) “relevant connected person” means a person with a connection (direct or indirect) to the arrangement under which the income arises.

554R Exclusions: acquisitions out of sums or assets

- (1) This section applies if—
- (a) a sum of money or asset (“sum or asset S”) is held by or on behalf of a person (“P”),
 - (b) a sum of money or asset (“sum or asset T”) is acquired by or on behalf of P wholly out of sum or asset S,
 - (c) sum or asset T is not acquired (directly or indirectly) from A or any person linked with A, and
 - (d) subsection (2) does not apply.
- (2) This subsection applies if it is reasonable to suppose that, in essence—
- (a) at the time of the acquisition of sum or asset T, the value of sum or asset T is greater or less than the value of sum or asset S, and
 - (b) the difference (or any part of the difference) in the values might not have been expected applying the assumption that all relevant connected persons are acting at arm's length of each other.
- (3) In subsection (2)—
- (a) the reference to sum or asset S is to sum or asset S so far as sum or asset T is acquired out of it, and
 - (b) “relevant connected person” means a person with a connection (direct or indirect) to the arrangement under which sum or asset T is acquired.
- (4) The cases covered by subsection (1)(b) include (in particular) cases in which sum or asset T represents the proceeds of the disposal of sum or asset S.
- (5) Subsection (6) applies if, on its acquisition, sum or asset T is the subject of a relevant step within section 554B taken by P.
- (6) Chapter 2 does not apply by reason of the relevant step if—
- (a) before the acquisition, sum or asset S was the subject of a relevant step within section 554B taken by P,

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (b) Chapter 2 applied by reason of the relevant step mentioned in paragraph (a) in respect of A's employment with B or would have applied apart from this section or section 554Q or 554T, and
 - (c) immediately before the acquisition, sum or asset S is still earmarked or otherwise held on the basis mentioned in section 554B(1)(a) or (b).
- (7) Subsection (8) applies if—
- (a) on its acquisition, sum or asset T—
 - (i) is the subject of a relevant step within section 554B taken by P by reason of which Chapter 2 applies or would apply apart from subsection (6) above or any of sections 554H to 554M, 554Q or 554T, or
 - (ii) if sub-paragraph (i) does not apply, is held by or on behalf of P on the same basis as that on which sum or asset S was held by or on behalf of P immediately before the acquisition, and
 - (b) for the sole purpose of the acquisition, sum or asset S or sum or asset T is the subject of a relevant step within section 554C(1)(a) to (c).
- (8) Chapter 2 does not apply by reason of the relevant step mentioned in subsection (7)(b).

Exclusions: relevant repayments

F45 554RA

- (1) This section applies (subject to subsection (5)) if—
- (a) a right to repayment of principal under a relevant loan (the “repayment right”) is held by or on behalf of a person (“P”), and
 - (b) on or after 9 December 2010, a sum of money (the “repayment sum”) is acquired by or on behalf of P by way of repayment of principal under the relevant loan.
- (2) In this section “relevant loan” means a loan made on or after 6 April 1999.
- (3) Subsection (4) applies if—
- (a) on its acquisition, the repayment sum is the subject of a relevant step within section 554B taken by P, or
 - (b) for the sole purpose of the acquisition, the making of the payment of the repayment sum is a relevant step within section 554C(1)(a).
- (4) Chapter 2 does not apply by reason of the relevant step if, on its acquisition, the repayment sum is held by or on behalf of P on the same basis as that on which the repayment right was held by or on behalf of P immediately before the acquisition.
- (5) This section does not apply where there is any connection (direct or indirect) between the acquisition by or on behalf of P of the repayment sum and a tax avoidance arrangement (other than the arrangement under which the relevant loan was made).]

Textual Amendments

- F45** S. 554RA inserted (with effect in accordance with Sch. 6 para. 14 of the amending Act) by [Finance Act 2017 \(c. 10\)](#), [Sch. 6 para. 8](#)

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

554S Exclusions: pension income chargeable under Part 9 etc

- (1) Chapter 2 does not apply by reason of a relevant step within section 554C or 554D if the step is the provision of pension income which is chargeable to income tax under Part 9 or is exempt income (within the meaning of that Part).
- (2) Sections 554T, 554U, 554V, 554W and 554X contain further provision relating to retirement benefits etc and are to be applied, so far as applicable, in that order.

Modifications etc. (not altering text)

- C7** S. 554S(2) modified (with effect in accordance with reg. 1(2) of the amending S.I.) by [The Employment Income Provided Through Third Parties \(Excluded Relevant Steps\) Regulations 2011](#) (S.I. 2011/2696), regs. 1(1), 5

554T Exclusions: employee pension contributions

- (1) Chapter 2 does not apply by reason of a relevant step within section 554B if the sum of money or asset which is the subject of the step arises or derives (whether wholly or partly or directly or indirectly) from an excluded pension contribution paid by A on or after 6 April 2011.
- (2) If the sum of money or asset arises or derives from the excluded pension contribution only partly, the relevant step is to be treated for the purposes of this Part as being two separate relevant steps—
 - (a) one in relation to the sum of money or asset so far as it arises or derives from the excluded pension contribution, and
 - (b) one in relation to the sum of money or asset so far as it does not arise or derive from the excluded pension contribution,with subsection (1) applying only in relation to the separate relevant step mentioned in paragraph (a).
- (3) Chapter 2 does not apply by reason of a relevant step within section 554C or 554D if the sum of money or asset which is the subject of the step—
 - (a) represents relevant benefits, and
 - (b) arises or derives (whether wholly or partly or directly or indirectly) from an excluded pension contribution paid by A.
- (4) If the sum of money or asset arises or derives from the excluded pension contribution only partly, the relevant step is to be treated for the purposes of this Part as being two separate relevant steps—
 - (a) one in relation to the sum of money or asset so far as it arises or derives from the excluded pension contribution, and
 - (b) one in relation to the sum of money or asset so far as it does not arise or derive from the excluded pension contribution,with subsection (3) applying only in relation to the separate relevant step mentioned in paragraph (a).
- (5) In order to give effect to subsection (2) or (4), the sum of money or asset which is the subject of the relevant step is to be apportioned between the two separate relevant steps on a just and reasonable basis.
- (6) For the purposes of this section an excluded pension contribution is a contribution—

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (a) which is made to an arrangement by A by way of a payment of a sum of money,
- (b) by virtue of which A acquires rights to receive relevant benefits under the arrangement (and nothing else),
- (c) which is neither a relievable pension contribution nor a tax-relieved contribution, and
- (d) which is not a repayment of any loan and otherwise has nothing to do with any loan and has nothing to do with a sum of money or asset which has been the subject of a relevant step within section 554C(1)(d).

(7) In this section—

“relevant benefits” has the same meaning as in Chapter 2 of Part 6, but ignoring section 393B(2)(a),

“relievable pension contribution” means a contribution in respect of which an individual is entitled to relief under section 188 of FA 2004, and

“tax-relieved contribution” has the meaning given by paragraph 3(3) of Schedule 34 to FA 2004.

554U Exclusions: pre-6 April 2006 contributions to employer-financed retirement benefit schemes

- (1) This section applies if the subject of a relevant step is a sum of money or asset which has (wholly or partly) arisen or derived (directly or indirectly) from a sum of money (“the taxed sum”)—
 - (a) which was paid by B in accordance with an employer-financed retirement benefits scheme (within the meaning of Chapter 2 of Part 6) with a view to the provision of benefits under the scheme, and
 - (b) in respect of which A is taxed.
- (2) For the purpose of determining whether A is taxed in respect of a sum of money, paragraph 53(3) of Schedule 36 to FA 2004 applies as it applies for the purpose of determining whether an employee is taxed for the purposes of paragraph 53(1)(b) of that Schedule.
- (3) Chapter 2 does not apply by reason of the relevant step.
- (4) Subsection (5) applies if the sum of money or asset which is the subject of the relevant step only partly arises or derives from the taxed sum.
- (5) The relevant step is to be treated for the purposes of this Part as being two separate relevant steps—
 - (a) one in relation to the sum of money or asset so far as it arises or derives from the taxed sum, and
 - (b) one in relation to the sum of money or asset so far as it does not arise or derive from the taxed sum,
 with subsection (3) applying only in relation to the separate relevant step mentioned in paragraph (a).
- (6) In order to give effect to subsection (5), the sum of money or asset which is the subject of the relevant step is to be apportioned between the two separate relevant steps on a just and reasonable basis.
- (7) If B is a company and is a member of a group of companies at any time (“the relevant time”), in subsection (1)(a), in relation to any sum of money paid at the relevant time,

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

the reference to B is to be read as including a reference to any other company which is a member of that group at the relevant time.

554V Exclusions: purchases of annuities out of pension scheme rights

(1) This section applies if—

- (a) an annuity contract is purchased from an insurance company wholly out of rights which A has under a pension scheme, and
- (b) A's rights out of which the annuity contract is purchased are, wholly or partly, pre-6 April 2011 annuity rights.

(2) If the purchaser—

- (a) takes a relevant step for the sole purpose of purchasing the annuity contract or transferring the beneficiary's rights under the annuity contract to A or a person linked with A, or
- (b) on the purchase of the annuity contract, otherwise takes a relevant step within section 554B the subject of which is the beneficiary's rights under the annuity contract,

Chapter 2 does not apply by reason of the relevant step.

(3) If the insurance company—

- (a) takes a relevant step for the sole purpose of selling the annuity contract, or
- (b) on the sale of the annuity contract, otherwise takes a relevant step within section 554B the subject of which is a sum of money or asset representing the purchase price received for the annuity contract,

Chapter 2 does not apply by reason of the relevant step.

(4) If A's rights out of which the annuity contract is purchased are only partly pre-6 April 2011 annuity rights, any relevant step mentioned in subsection (2)(a) or (b) or (3)(a) or (b) is to be treated for the purposes of this Part as being two separate relevant steps—

- (a) one in relation to the annuity contract so far as it is purchased out of rights which are pre-6 April 2011 annuity rights, and
- (b) one in relation to the annuity contract so far as it is purchased out of rights which are not pre-6 April 2011 annuity rights,

with subsection (2) or (3) (as the case may be) applying only in relation to the separate relevant step mentioned in paragraph (a) of this subsection.

(5) In order to give effect to subsection (4), the sum of money or asset which is the subject of the relevant step mentioned in subsection (2)(a) or (b) or (3)(a) or (b) is to be apportioned between the two separate relevant steps on a just and reasonable basis.

(6) In this section—

“annuity contract” means a contract for the provision of an annuity—

- (a) granted for consideration in money or money's worth in the ordinary course of a business of granting annuities on human life, and
- (b) payable for a term ending at a time ascertainable only by reference to the end of a human life,

although for this purpose it does not matter that the annuity may in some circumstances end before or after the life,

“insurance company” means—

- (a) a person or EEA firm within section 275(1)(a) or (b) of FA 2004, or

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (b) a person resident in a territory outside the European Economic Area—
 - (i) whose normal business includes the provision of annuities, and
 - (ii) who is regulated in the conduct of that business by the government of that territory or by a body established under the law of that territory for the purpose of regulating such business, and

“pre-6 April 2011 annuity rights” means rights, which accrued before 6 April 2011, specifically to receive an annuity.

554W Exclusions: certain retirement benefits etc

- (1) This section applies if—
 - (a) a relevant benefit is provided under a relevant scheme by way of a payment of a lump sum wholly out of rights which A has under the scheme,
 - (b) A's rights out of which the lump sum is paid are, wholly or partly, pre-6 April 2011 lump sum rights, and
 - (c) the payment of the lump sum is a relevant step within section 554C.
- (2) Chapter 2 does not apply by reason of the relevant step.
- (3) If A's rights out of which the lump sum is paid are only partly pre-6 April 2011 lump sum rights, the relevant step is to be treated for the purposes of this Part as being two separate relevant steps—
 - (a) one in relation to the lump sum so far as it is paid out of rights which are pre-6 April 2011 lump sum rights, and
 - (b) one in relation to the lump sum so far as it is paid out of rights which are not pre-6 April 2011 lump sum rights,
 with subsection (2) applying only in relation to the separate relevant step mentioned in paragraph (a).
- (4) In order to give effect to subsection (3), the lump sum is to be apportioned between the two separate relevant steps on a just and reasonable basis.
- (5) In this section—
 - “pre-6 April 2011 lump sum rights” means rights, which accrued before 6 April 2011, specifically to receive relevant benefits by way of lump sum payments,
 - “relevant benefit” has the same meaning as in Chapter 2 of Part 6, and
 - “relevant scheme” means an employer-financed retirement benefits scheme (within the meaning of that Chapter) or a superannuation fund to which section 615(3) of ICTA applies.

554X Exclusions: transfers between certain foreign pension schemes

- (1) This section applies if rights which A has under a section 390 scheme are transferred to another section 390 scheme or to an overseas pension scheme.
- (2) This section also applies if—
 - (a) rights which A has under an overseas pension scheme are transferred to another overseas pension scheme, and
 - (b) some or all of the rights transferred are section 390 scheme rights.

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (3) Chapter 2 does not apply by reason of—
 - (a) a relevant step within section 554C taken for the sole purpose of transferring the rights, or
 - (b) a relevant step within section 554B taken by the transferee in relation to the transferred rights on their transfer.
- (4) Subsection (5) applies in relation to a transfer within subsection (2) if not all the transferred rights are section 390 scheme rights.
- (5) Any relevant step mentioned in subsection (3) is to be treated for the purposes of this Part as being two separate relevant steps—
 - (a) one in relation to the section 390 scheme rights, and
 - (b) one in relation to the rest of the transferred rights,with subsection (3) applying only in relation to the separate relevant step mentioned in paragraph (a) of this subsection.
- (6) In order to give effect to subsection (5), the sum of money or asset which is the subject of the relevant step mentioned in subsection (3) is to be apportioned between the two separate relevant steps on a just and reasonable basis.
- (7) Subsection (8) applies if any of the transferred rights arise or derive (directly or indirectly) from contributions to any scheme which—
 - (a) are paid by B on or after 6 April 2006, and
 - (b) are neither tax-relieved contributions nor tax-exempt provision.
- (8) Any relevant step mentioned in subsection (3) is to be treated for the purposes of this Part as being two separate relevant steps—
 - (a) one in relation to the rights mentioned in subsection (7), and
 - (b) one in relation to the rest of the transferred rights,with subsection (3) applying only in relation to the separate relevant step mentioned in paragraph (b) of this subsection.
- (9) In order to give effect to subsection (8), the sum of money or asset which is the subject of the relevant step mentioned in subsection (3) is to be apportioned between the two separate relevant steps on a just and reasonable basis.
- (10) If subsection (5) applies in relation to a transfer—
 - (a) in subsection (7) the reference to the transferred rights is to be read as a reference to the transferred section 390 scheme rights only, and
 - (b) in subsections (8) and (9) references to any relevant step mentioned in subsection (3) are to be read as references to the separate relevant step mentioned in subsection (5)(a).
- (11) If B is a company and is a member of a group of companies at any time (“the relevant time”), in subsection (7)(a), in relation to any contribution paid at the relevant time, the reference to B is to be read as including a reference to any other company which is a member of that group at the relevant time.
- (12) In this section—
 - “overseas pension scheme” has the same meaning as in Part 4 of FA 2004 (see section 150(7) of that Act),
 - “section 390 scheme” means a scheme in relation to which a claim was accepted under section 390,

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

“section 390 scheme rights” means rights which A has under an overseas pension scheme and which—

- (a) have been transferred to the scheme (directly or indirectly) from a section 390 scheme, or
- (b) have arisen or derived (directly or indirectly) from rights that have been so transferred, and

“tax-exempt provision” and “tax-relieved contribution” have the meaning given by paragraph 3(3) and (4) of Schedule 34 to FA 2004.

Exclusions: payments in respect of a tax liability

S. 554XA

- (1) Chapter 2 does not apply by reason of a relevant step which is the payment of a sum of money if—
 - (a) the payment is a relevant tax payment, or
 - (b) where the payment is not a relevant tax payment—
 - (i) the payment is made to a person for the purpose of the person making a relevant tax payment,
 - (ii) the person makes a relevant tax payment of an amount equal to the amount of the first payment, and
 - (iii) the relevant tax payment is made before the end of the period of 60 days beginning with the day on which the first payment is made.
- (2) “Relevant tax payment” means a payment made to Her Majesty's Revenue and Customs in respect of a relevant liability for—
 - ^{F46}(a)
 - ^{F47}(b)
 - (c) inheritance tax, or
 - (d) corporation tax.
- (3) But a provisional payment of tax (see section 554Z11D) is not a relevant tax payment.
- (4) A liability is a “relevant liability” if—
 - (a) under the terms of an agreement for the discharge of the liability, or
 - (b) by way of a decision on an application under this section,
 an officer of Revenue and Customs agrees that the liability is to be treated as arising in respect of the relevant arrangement concerned.
- (5) A person may make an application to Her Majesty's Revenue and Customs for a liability to be treated, for the purposes of this section, as arising in respect of the relevant arrangement concerned.
- (6) An application under this section must be made in such form and manner, and contain such information, as may be specified by, or on behalf of, the Commissioners for Her Majesty's Revenue and Customs.
- (7) An officer of Revenue and Customs must notify the applicant of the decision on an application under this section.]

Textual Amendments

- F46** S. 554XA inserted (with effect in accordance with Sch. 6 para. 13 of the amending Act) by [Finance Act 2017 \(c. 10\)](#), [Sch. 6 para. 9](#)

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

F47 S. 554XA(2)(a)(b) omitted (with effect in accordance with s. 34(2) of the amending Act) by virtue of Finance (No. 2) Act 2017 (c. 32), s. 34(1)

554Y Power to exclude other relevant steps

- (1) The Commissioners for Her Majesty's Revenue and Customs may by regulations provide for Chapter 2 not to apply—
 - (a) by reason of a relevant step falling within a specified description, or
 - (b) in the cases otherwise specified in the regulations.
- (2) Regulations under this section may, in consequence of provision within subsection (1)—
 - (a) provide—
 - (i) for a relevant step to be treated for the purposes of this Part as if it were two or more separate relevant steps,
 - (ii) for the provision within subsection (1) to apply only to one or some of the separate relevant steps, and
 - (iii) for the sum of money or asset which is the subject of the relevant step to be apportioned between the separate relevant steps on a just and reasonable basis,
 - (b) make provision, in relation to cases in which Chapter 2 does not apply by reason of a relevant step by virtue of the provision within subsection (1)—
 - (i) for a relevant step to be treated as taking place if, subsequently, specified conditions are met or not met, and
 - (ii) for Chapter 2 to apply by reason of the relevant step treated as taking place, and
 - (c) make other provision modifying the application of any provision of this Part.
- (3) Regulations under this section may contain incidental, supplemental, consequential and transitional provision and savings.
- (4) Regulations under this section may have retrospective effect.

Interpretation

554Z Interpretation: general

- (1) This section applies for the purposes of this Part.
- (2) “A” and “B” are defined in section 554A(1)(a) [^{F48}or, as the case may be, section 554AA(1)].
- (3) “Arrangement” includes any agreement, scheme, settlement, transaction, trust or understanding (whether or not it is legally enforceable).
- (4) “Market value” has the same meaning as it has for the purposes of TCGA 1992 by virtue of Part 8 of that Act.
- (5) Section 170(2) to (11) of TCGA 1992 applies for the purpose of determining whether a company is a member of a group of companies.

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (6) And for that purpose, section 170(2) to (11) is to be read as if for “75 per cent” (wherever occurring) there were substituted “51 per cent” (with section 1154(2) of CTA 2010 applying accordingly).
- (7) References to the payment of a sum of money include (in particular) references to the payment of a sum of money by way of a loan.
- (8) “Pension scheme” has the same meaning as in Part 4 of FA 2004 (see section 150(1) of that Act).
- (9) “Relevant step” is defined in section 554A(2) [^{F49}, but see also Schedule 11 to F(No. 2)A 2017].
- (10) References to a relevant step which involves a sum of money are references to—
 - (a) a step within section 554B where the subject of the relevant step is a sum of money,
 - (b) a step within section 554C(1)(a) [^{F50}to (ab)] , ^{F51}...
 - (c) a step within section 554C(1)(d) where the subject of the relevant step is a sum of money^{F52}, or
 - (d) a step within paragraph 1 [^{F53}or 1A] of Schedule 11 to F(No. 2)A 2017.]
- (11) References to the asset which is the subject of a relevant step are, in the case of a step within section 554C(1)(e), references to the lease granted.
- (12) For this purpose, the lease granted is to be treated as including any extensions of the lease, or any later lease, which by virtue of section 554C(7) or (8) is taken into account in determining the likely effective duration of the lease for the purposes of section 554C(1)(e).
- (13) “Tax avoidance arrangement” means an arrangement which has a tax avoidance purpose.
- (14) For the purposes of subsection (13) an arrangement has a tax avoidance purpose if subsection (15) applies to a person who is a party to the arrangement.
- (15) This subsection applies to a person if the main purpose, or one of the main purposes, of the person in entering into the arrangement is the avoidance of tax or national insurance contributions.
- (16) The following paragraphs apply for the purpose of determining whether any relevant step or any other step is connected with a tax avoidance arrangement—
 - (a) the step is connected with a tax avoidance arrangement if (for example) the step is taken (wholly or partly) in pursuance of—
 - (i) the tax avoidance arrangement, or
 - (ii) an arrangement at one end of a series of arrangements with the tax avoidance arrangement being at the other end, and
 - (b) it does not matter if the person taking the step is unaware of the tax avoidance arrangement.

Textual Amendments

F48 Words in s. 554Z(2) inserted (with effect in accordance with Sch. 1 para. 14 of the amending Act) by [Finance Act 2018 \(c. 3\)](#), [Sch. 1 para. 5\(4\)](#)

F49 Words in s. 554Z(9) inserted (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 11 para. 46\(4\)](#)

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- F50** Words in s. 554Z(10)(b) inserted (with effect in accordance with Sch. 6 para. 13 of the amending Act) by [Finance Act 2017 \(c. 10\)](#), [Sch. 6 para. 6](#)
- F51** Word in s. 554Z(10)(b) omitted (16.11.2017) by virtue of [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 11 para. 46\(5\)](#)
- F52** S. 554Z(10)(d) and word inserted (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 11 para. 46\(5\)](#)
- F53** Words in s. 554Z(10)(d) inserted (22.7.2020) by [Finance Act 2020 \(c. 14\)](#), [Sch. 2 para. 25](#)

Modifications etc. (not altering text)

- C8** S. 554Z(16) applied (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 11 para. 44\(2\)](#)

554Z1 Interpretation: persons linked with A

- (1) In this Part references to any person linked with A are references to—
- (a) any person who is or has been connected with A,
 - (b) a close company in which A or a person within any other paragraph of this subsection is or has been a participator,
 - (c) a company in which A or a person within any other paragraph of this subsection is or has been a participator and which would be a close company if it were a UK resident company, or
 - (d) a company which is a 51% subsidiary of a company within paragraph (b) or (c).
- [^{F54}(2) In applying section 993 of ITA 2007 for the purposes of subsection (1), two people living together as if they were a married couple or civil partners are treated as if they were spouses or civil partners of each other.]
- (3) In subsection (1) “participator”—
- (a) in relation to a close company, means a person who is a participator in relation to the company for the purposes of section 455 of CTA 2010 (see sections 454 and 455(5) of that Act), and
 - (b) in relation to a company which would be a close company if it were a UK resident company, means a person who would be such a participator if the company were a close company.

Textual Amendments

- F54** S. 554Z1(2) substituted (2.12.2019) by [The Civil Partnership \(Opposite-sex Couples\) Regulations 2019 \(S.I. 2019/1458\)](#), [reg. 1\(2\)](#), [Sch. 3 para. 25\(4\)](#)

Modifications etc. (not altering text)

- C9** S. 554Z1 applied (with modifications) (with effect in accordance with Sch. 2 paras. 52-59 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 2 para. 36\(3\)](#)

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

CHAPTER 2

TREATMENT OF RELEVANT STEP FOR INCOME TAX PURPOSES

Modifications etc. (not altering text)

- C10** Pt. 7A Ch. 2 disapplied (with effect in accordance with reg. 1(2) of the amending S.I.) by [The Employment Income Provided Through Third Parties \(Excluded Relevant Steps\) Regulations 2011 \(S.I. 2011/2696\)](#), regs. 1(1), **3**, **4**
- C11** Pt. 7A Ch. 2 excluded (6.4.2017) by [The Sporting Testimonial Payments \(Excluded Relevant Step\) Regulations 2016 \(S.I. 2016/1250\)](#), regs. 1(1), **2(1)** (with reg. 2(2))
- C12** Pt. 7A Ch. 2 excluded (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 11 para. 29(1)**
- C13** Pt. 7A Ch. 2 excluded (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 11 para. 27(1)**
- C14** Pt. 7A Ch. 2 excluded (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 11 para. 35(1)**
- C15** Pt. 7A Ch. 2 excluded (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 11 para. 25**
- C16** Pt. 7A Ch. 2 excluded (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 11 para. 31**
- C17** [Pt. 7A Ch. 2](#) excluded (22.7.2020) by 2017 c. 32, Sch. 11 para. 35ZA (as inserted by [Finance Act 2020 \(c. 14\)](#), **Sch. 2 para. 38**)

Employment income

554Z2 Value of relevant step to count as employment income

- (1) If this Chapter applies by reason of a relevant step, the value of the relevant step (see section 554Z3) counts as employment income of A in respect of A's employment with B—

- (a) if the relevant step is taken before A's employment with B starts, for the tax year in which the employment starts, or
- (b) otherwise, for the tax year in which the relevant step is taken.

[But subsection (1) is subject to section 554Z2A (close companies).]
^{F55}(1AA)

[Where the value of a relevant step would (apart from this subsection) count as ^{F56}(1A) employment income of more than one person—

- (a) the value of the relevant step is to be apportioned between each of those persons on a just and reasonable basis, and
- (b) subsection (1) applies as if the reference to the value of the relevant step in relation to A were a reference to so much of the value of the relevant step that is apportioned to A.]

- (2) If the relevant step gives rise to—

- (a) an amount which (apart from this subsection) would be treated as earnings of A under a provision of the benefits code, or
- (b) any income of A which (apart from this subsection) would be dealt with under Chapter 3 of Part 4 of ITTOIA 2005,

subsection (1) applies instead of that provision of the benefits code or Chapter 3 of Part 4 of ITTOIA 2005 (as the case may be).

- (3) In particular, in a case in which the relevant step is the making of an employment-related loan (within the meaning of Chapter 7 of Part 3), the effect of subsection (2)

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

(a) is that the loan is not to be treated for any tax year as a taxable cheap loan for the purposes of that Chapter.

[See paragraph 37 of Schedule 11 to F(No. 2)A 2017 for provision about the effect
^{F57}(4) of subsection (2)(a) in a case in which the relevant step is within paragraph 1 of that Schedule.]

Textual Amendments

- F55** S. 554Z2(1AA) inserted (with effect in accordance with Sch. 1 para. 14 of the amending Act) by Finance Act 2018 (c. 3), **Sch. 1 para. 3(1)**
- F56** S. 554Z2(1A) inserted (15.9.2016) by Finance Act 2016 (c. 24), **s. 18(2)**
- F57** S. 554Z2(4) inserted (16.11.2017) by Finance (No. 2) Act 2017 (c. 32), **Sch. 11 para. 38**

Modifications etc. (not altering text)

- C18** S. 554Z2(2)(a) modified (16.11.2017) by Finance (No. 2) Act 2017 (c. 32), **Sch. 11 para. 37(2)**

^{F58}**554Z2A** Exception to section 554Z2(1): close companies

- (1) Section 554Z2(1) does not apply in the case of a relevant step if—
- (a) this Chapter applies in the case of the relevant step only by reason of section 554AA (close companies),
 - (b) the relevant step is a step within section 554B, 554C or 554D,
 - (c) the relevant step gives rise to a charge to tax under either—
 - (i) section 455 of CTA 2010 by virtue of section 459 of that Act (loans treated as made to participator), or
 - (ii) section 415 of ITTOIA 2005 (release of loan to participator in a close company), and
 - (d) in a case within paragraph (c)(i), either the payment condition or the consent condition is met in relation to the charge under section 455 of CTA 2010.
- (2) The payment condition is met in relation to a charge to tax under section 455 of CTA 2010 if—
- (a) the net section 455 charge is paid in full on or before the due date, or
 - (b) the net section 455 charge is nil.
- (3) The “net section 455 charge” means the amount of the charge to tax under section 455 of CTA 2010 less the amount of section 458 relief from that charge.
- (4) In subsection (3) “section 458 relief” means relief given under section 458 of that Act—
- (a) in respect of a repayment made, or a release or writing-off occurring, on or before the due date, and
 - (b) on a claim made on or before the due date.
- (5) The consent condition is met in relation to a charge to tax under section 455 of CTA 2010 if—
- (a) the charge to tax is reported, in a company tax return of B's, as required under Schedule 18 to FA 1998 (company tax returns etc),
 - (b) the payment condition is not met in relation to that charge, and

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (c) an officer of Revenue and Customs considers that section 554Z2(1) should not apply in the case of the relevant step concerned.
- (6) In this section, references to the “due date” in relation to a charge to tax under section 455 of CTA 2010 are references to the day on which the tax is due and payable (see section 455(3) of CTA 2010).]

Textual Amendments

F58 S. 554Z2A inserted (with effect in accordance with Sch. 1 para. 14 of the amending Act) by [Finance Act 2018 \(c. 3\)](#), [Sch. 1 para. 3\(2\)](#)

554Z3 Value of relevant step

- (1) If the relevant step involves a sum of money, its value is the amount of the sum.
- (2) In any other case, the value of the relevant step is—
 - (a) the market value when the relevant step is taken of the asset which is the subject of the step, or
 - (b) if higher, the cost of the relevant step.
- (3) Subsection (2)(a) is subject to sections 437 and 452.
- (4) Subsection (2)(b) is to be ignored if—
 - (a) the relevant step is within section 554C(1)(c), and
 - (b) any of Chapters 2 to 4A of Part 7 apply by virtue of the acquisition.
- (5) Subsection (2)(b) is also to be ignored if section 554Z7 applies.
- (6) In subsection (2)(b) the reference to the cost of the relevant step is to the expense incurred in connection with the relevant step (including a proper proportion of any expense relating partly to the relevant step and partly to other matters) by the person or persons at whose cost the relevant step is taken.
- (7) Subsections (1) and (2) are subject to sections 554Z4, 554Z5, 554Z6, 554Z7 and 554Z8, which, so far as applicable, are to be applied in that order.

Modifications etc. (not altering text)

C19 S. 554Z3(1) modified (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 11 para. 13\(2\)\(b\)](#)

554Z4 Residence issues

- (1) After the value of the relevant step is determined under section 554Z3, the particular tax year or years which the value of the relevant step is “for” are to be determined.
- (2) For this purpose, apply sections 16(1) to (4) and 17(1) to (3) as if the value of the relevant step were general earnings.
- [^{F59}(3) Subsection (4) applies if the value of the relevant step, or a part of it, is “for”—
 - (a) a tax year for which A is non-UK resident, or
 - (b) a tax year that is a split year as respects A.

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (4) The value, or the part of it, is to be reduced—
- (a) in a case within subsection (3)(a), by so much of the value, or the part of it, as is not in respect of UK duties, and
 - (b) in a case within subsection (3)(b), by so much of the value, or the part of it, as is both—
 - (i) attributable to the overseas part of the tax year, and
 - (ii) not in respect of UK duties.

- (5) The extent to which—
- (a) the value, or the part of it, is not in respect of UK duties, or
 - (b) so much of the value, or the part of it, as is attributable to the overseas part of the tax year is not in respect of UK duties,
- is to be determined on a just and reasonable basis.]

[Any attribution required for the purposes of subsection (4)(b)(i) is to be done on a just
^{F60}(5A) and reasonable basis.

(5B) “UK duties” means duties performed in the United Kingdom.]

- (6) This section does not change the tax year for which the value of the relevant step counts as employment income under section 554Z2(1).

- [Subsections (8) and (9) apply if—
- ^{F61}(7) (a) the relevant step is the payment of a lump sum,
- (b) the payment of the lump sum is the provision of a relevant benefit under an employer-financed retirement benefits scheme, and
 - (c) the person by whom the lump sum is received is resident in the United Kingdom in the tax year in which the lump sum is received.

- (8) If the lump sum is wholly in respect of rights which have accrued on or after 6 April 2017, there is no reduction under subsection (4).

- (9) If the lump sum is wholly or partly in respect of rights which accrued before 6 April 2017, the amount of any reduction under subsection (4) is given by—

$$R \times \frac{A}{LS}$$

where—

A is so much of the lump sum as is in respect of rights which accrued before 6 April 2017,

LS is the amount of the lump sum, and

R is the amount which (ignoring this subsection) is given by subsection (4) as the amount of the reduction.

- (10) In subsection (7)—
- “employer-financed retirement benefits scheme” has the same meaning as in Chapter 2 of Part 6 (see section 393A), and
 - “relevant benefit” has the same meaning as in that Chapter (see section 393B).]

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

Textual Amendments

- F59** S. 554Z4(3)–(5) substituted (with effect in accordance with Sch. 45 para. 153(2) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 45 para. 68\(2\)](#)
- F60** S. 554Z4(5A)(5B) inserted (with effect in accordance with Sch. 45 para. 153(2) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 45 para. 68\(3\)](#)
- F61** S. 554Z4(7)–(10) inserted (27.4.2017) by [Finance Act 2017 \(c. 10\)](#), [Sch. 3 para. 7](#)

Temporary non-residents

554Z4A

- (1) This section applies if A is temporarily non-resident.
- (2) Any relevant step within subsection (3) is to be treated for the purposes of section 554Z2 as if it were taken in the period of return.
- (3) A relevant step is within this subsection if—
 - (a) it is the payment of a lump sum to a relevant person (see section 554C(2)),
 - (b) the lump sum is a relevant benefit provided under a relevant scheme,
 - (c) the step is taken in the temporary period of non-residence, and
 - (d) ignoring this section—
 - (i) no charge to tax arises by virtue of section 554Z2 by reason of the step, but
 - (ii) such a charge would arise if the existence of any double taxation relief arrangements were disregarded.
- (4) Subsection (3)(d)(i) includes a case where the charge could be prevented by making a DTR claim, even if no claim is in fact made.
- (5) Nothing in any double taxation relief arrangements is to be read as preventing A from being chargeable to income tax in respect of any relevant step treated by virtue of this section as taken in the period of return (or as preventing a charge to that tax from arising as a result).
- (6) Part 4 of Schedule 45 to FA 2013 (statutory residence test: anti-avoidance) explains—
 - (a) when an individual is to be regarded as “temporarily non-resident”, and
 - (b) what “the temporary period of non-residence” and “the period of return” mean.
- (7) In this section—

“double taxation relief arrangements” means arrangements that have effect under section 2(1) of TIOPA 2010;

“DTR claim” means a claim for relief under section 6 of that Act;

“relevant benefit” has the same meaning as in Chapter 2 of Part 6;

“relevant scheme” means an employer-financed retirement benefits scheme (within the meaning of that Chapter) or a superannuation fund to which section 615(3) of ICTA applies.]

Textual Amendments

- F62** S. 554Z4A inserted (with effect in accordance with Sch. 45 para. 153(3) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 45 para. 126](#)

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

[^{F63}554ZD] Overlap with money or asset subject to earlier tax liability

- (1) This section applies if there is overlap between—
 - (a) the sum of money or asset (“sum or asset P”) which is the subject of the relevant step, and
 - (b) a sum of money or asset (“sum or asset Q”) by reference to which, on an occasion that occurred before the relevant step is taken, A became subject to a liability for income tax (“the earlier tax liability”).
- (2) But this section does not apply where—
 - (a) the earlier tax liability arose by reason of a step within section 554B taken in a tax year before 6 April 2011, and
 - (b) the value of the relevant step is (or if large enough would be) reduced under paragraph 59 of Schedule 2 to FA 2011.
- (3) Where either the payment condition or the liability condition is met, the value of the relevant step is reduced (but not below nil) by an amount equal to so much of the sum of money, or (as the case may be) the value of so much of the asset, as is within the overlap.
- (4) The payment condition is that, at the time the relevant step is taken—
 - (a) the earlier tax liability has become due and payable, and
 - (b) either—
 - (i) it has been paid in full, or
 - (ii) the person liable for the earlier tax liability has agreed terms with an officer of Revenue and Customs for the discharge of that liability.
- (5) The liability condition is that, at the time the relevant step is taken, the earlier tax liability is not yet due and payable.
- (6) For the purposes of this section there is overlap between sum or asset P and sum or asset Q so far as it is just and reasonable to conclude that—
 - (a) they are the same sum of money or asset, or
 - (b) sum or asset P directly, or indirectly, represents sum or asset Q.
- (7) Subsection (8) applies where—
 - (a) the earlier tax liability arose by virtue of the application of this Chapter by reason of an earlier relevant step (the “earlier relevant step”), and
 - (b) reductions were made under this section to the value of the earlier relevant step.
- (8) Where this subsection applies, sum or asset P is treated as overlapping with any other sum of money or asset so far as the other sum of money or asset was treated as overlapping with sum or asset Q for the purposes of this section.
- (9) In subsection (1)(b)—
 - (a) the reference to A includes a reference to any person linked with A, and
 - (b) the reference to a liability for income tax does not include a reference to a liability for income tax arising by reason of section 175 (benefit of taxable cheap loan treated as earnings).
- (10) In subsection (3) the reference to the value of the relevant step is a reference to that value—
 - (a) after any reductions made to it under section 554Z4, this section or 554Z7, but

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (b) before any reductions made to it under section 554Z6 or 554Z8.
- (11) For the purposes of subsection (4)(b)(i) a person is not to be regarded as having paid any tax by reason only of making—
 - (a) a payment on account of income tax,
 - (b) a payment that is treated as a payment on account under section 223(3) of FA 2014 (accelerated payments), or
 - (c) a payment pending determination of an appeal made in accordance with section 55 of TMA 1970.]

[See paragraphs 4(5) and (6) and 12(4) and (5) of Schedule 11 of F(No. 2)A 2017) for ^{F64}(12) provision about the effect of subsection (3) in certain cases where the relevant step is within paragraph 1 of that Schedule.]

Textual Amendments

- F63** S. 554Z5 substituted (with effect in accordance with Sch. 6 para. 13 of the amending Act) by [Finance Act 2017 \(c. 10\)](#), [Sch. 6 para. 10](#)
- F64** S. 554Z5(12) inserted (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 11 para. 46\(6\)](#)

Modifications etc. (not altering text)

- C20** S. 554Z5(3) excluded (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 11 para. 12\(5\)](#)

554Z6 Overlap with certain earnings

- (1) This section applies if the relevant step gives rise to relevant earnings of A from A's employment with B—
 - (a) which are, in accordance with section 16 and (if applicable) section 17, “for” a tax year in which A is UK resident [^{F65}(and, in the case of a tax year that is a split year as respects A, are not “excluded” by virtue of section 15(1A) (a) and (b)(i))], or
 - (b) which are, in accordance with section 29 and (if applicable) section 30, “for” a tax year in which A is non-UK resident but which are in respect of duties performed in the United Kingdom for the purposes of section 27(1)(a).
- (2) The value of the relevant step (after any reductions under section 554Z4 or 554Z5) is reduced (but not below nil) by the amount of the relevant earnings.
- (3) For the purposes of this section the following are “relevant” earnings—
 - (a) earnings within Chapter 1 of Part 3,
 - (b) amounts treated as earnings under Chapter 12 of Part 3, and
 - (c) a deemed employment payment under section 50 or any part of such a payment.
- (4) But anything which is exempt income, or which falls within Chapter 3 of Part 4 of ITTOIA 2005, is not “relevant”.

Textual Amendments

- F65** Words in s. 554Z6(1)(a) inserted (with effect in accordance with Sch. 45 para. 153(2) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 45 para. 69](#)

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

554Z7 Exercise price of share options

(1) Subsection (3) applies if—

- (a) the relevant step is a step within section 554B (other than one treated as being taken by section 554L(5), (7) or (9) or 554M(4), (6) or (8)),
- (b) B is a company,
- (c) there is an arrangement (“B’s employee share scheme”) under which, in respect of A’s employment with B, a right (“a relevant share option”) may be granted to A—
 - (i) to acquire relevant shares, or
 - (ii) to receive a sum of money the amount of which is to be determined by reference to the market value of any relevant shares at the time the sum is to be paid,
- (d) in order to exercise the relevant share option so as—
 - (i) to acquire the relevant shares, or
 - (ii) to receive the sum of money,

A would, under the terms of the option, have to pay a sum of money the amount of which can be determined at the time of the grant of the option,
- (e) the subject of the relevant step is relevant shares (“earmarked shares”) which are earmarked, or otherwise start being held, solely with a view to providing shares, or paying a sum of money, pursuant to—
 - (i) a relevant share option granted to A under B’s employee share scheme as mentioned in paragraph (c) in relation to which the requirements of paragraph (d) are met, or
 - (ii) a relevant share option which is expected to be granted to A under B’s employee share scheme as mentioned in paragraph (c) and in relation to which the requirements of paragraph (d) would be met,
- (f) the number of relevant shares of any type which are earmarked shares does not exceed the maximum number of relevant shares of that type which might reasonably be expected to be needed for providing shares, or paying a sum of money, pursuant to the relevant share option which is granted or expected to be granted, and
- (g) there is no connection (direct or indirect) between the relevant step and a tax avoidance arrangement.

(2) Subsection (3) also applies if—

- (a) the relevant step is a step treated as being taken by section 554L(9) or 554M(8), and
- (b) in order to exercise the relevant share option to which the step relates so as—
 - (i) to acquire the shares which are the subject of the relevant step, or
 - (ii) to receive the sum of money determined by reference to the market value of those shares,

A would, under the terms of the option, have to pay a sum of money the amount of which can be determined at the time the option is granted.

(3) The value of the relevant step (after any reductions under sections 554Z4 to 554Z6) is to be reduced (but not below nil) by—

- (a) the amount of the sum of money which A would have to pay as mentioned in subsection (1)(d) or (2)(b), or

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (b) if the value of the relevant step was reduced under section 554Z4, X% of the amount of that sum of money.
- (4) In subsection (3)(b) “X%” means the proportion of the value of the relevant step (as determined under section 554Z3) left after the reduction under section 554Z4.
- (5) If subsection (3) applies by virtue of subsection (1) and the relevant step is taken in relation to an expected grant of a relevant share option as mentioned in subsection (1)(e)(ii), subsection (7) applies if—
 - (a) the grant is not made before the end of the date (“the final grant date”) falling immediately after the period of three months starting with the date on which the relevant step is taken, and
 - (b) as at the end of the final grant date, any of the earmarked shares continue to be held by or on behalf of P solely on the basis mentioned in subsection (1)(e).
- (6) If subsection (3) applies by virtue of subsection (1), subsection (7) also applies if at any time after the taking of the relevant step—
 - (a) any of the earmarked shares cease to be held by or on behalf of P solely on the basis mentioned in subsection (1)(e), but
 - (b) the shares continue to be held by or on behalf of P on the basis mentioned in section 554B(1)(a) or (b).
- (7) This Part has effect as if a relevant step within section 554B were taken at the end of the final grant date or when the shares cease to be held as mentioned in subsection (6)—
 - (a) the subject of which is the earmarked shares mentioned in subsection (5)(b) or (6), and
 - (b) by reason of which this Chapter is to apply (subject only to section 554A(4)).
- (8) In this section “relevant shares” has the meaning given by section 554I(4).

554Z8 Cases where consideration given for relevant step

- (1) Subsection (2) applies if—
 - (a) the relevant step is a step within section 554C(1)(a) to (c),
 - (b) the relevant step is for consideration given by A in the form of the transfer of an asset to P from A,
 - (c) the transfer by A of the asset is made before, or at or about, the time the relevant step is taken and is not by way of a loan, and
 - (d) there is no connection (direct or indirect) between the transfer by A of the asset and a tax avoidance arrangement.
- (2) The value of the relevant step (after any reductions under sections 554Z4 to 554Z6) is reduced (but not below nil) by—
 - (a) the market value of the asset transferred by A at the time of its transfer, or
 - (b) if the value of the relevant step was reduced under section 554Z4, X% of that market value.
- (3) For the purposes of subsection (1)(d) it is (in particular) to be assumed that the transfer by A of the asset is connected with a tax avoidance arrangement if—
 - (a) before the transfer, the asset was transferred to A by another person by way of a loan, or

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (b) the asset is, or carries with it, any rights or interests under the relevant arrangement or any arrangement which is connected (directly or indirectly) with the relevant arrangement.
- (4) In subsection (3)(b) “the relevant arrangement” has the meaning given by section 554A(1)(b).
- (5) Subsection (6) applies if—
 - (a) the relevant step is a step within section 554C(1)(b) or (c) or (e) or 554D and does not also involve a sum of money,
 - (b) the relevant step is for consideration given by A in the form of the payment of a sum of money to P by A, ^{F66}...
 - (c) the payment is made before, or at or about, the time the relevant step is taken^{F67}, and
 - (d) there is no connection (direct or indirect) between the payment and a tax avoidance arrangement.]
- (6) The value of the relevant step (after any reductions under sections 554Z4 to 554Z6) is reduced (but not below nil) by—
 - (a) the amount of the consideration given, or
 - (b) if the value of the relevant step was reduced under section 554Z4, X% of the amount of that consideration.
- (7) In subsections (2)(b) and (6)(b) “X%” means the proportion of the value of the relevant step (as determined under section 554Z3) left after the reduction under section 554Z4.
- (8) In this section references to A include references to any person linked with A.

Textual Amendments

- F66** Word in s. 554Z8(5)(b) omitted (with effect in accordance with s. 18(9) of the amending Act) by virtue of [Finance Act 2016 \(c. 24\), s. 18\(3\)](#)
- F67** S. 554Z8(5)(d) and word inserted (with effect in accordance with s. 18(9) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 18\(3\)](#)

Remittance basis

554Z9 Remittance basis: [^{F68}A does not meet section 26A requirement]

- (1) [^{F69}Subsections (2) and (2A) apply] if—
 - (a) the value of the relevant step, or a part of it, is “for” a tax year (“the relevant tax year”) as determined under section 554Z4,
 - (b) section 809B, 809D or 809E of ITA 2007 (remittance basis) applies to A for the relevant tax year,
 - [^{F70}(c) A does not meet the requirement of section 26A for the relevant tax year (reading references there to the employee as references to A),]
 - (d) A's employment with B in the relevant tax year is employment with a foreign employer, and
 - (e) the duties of A's employment with B in the relevant tax year are performed wholly outside the United Kingdom.

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

[But [^{F72}subsections (2) and (2A) do not apply] if section 24A applies in relation to A's ^{F71}(1A) employment with B for the relevant tax year.]

(2) [^{F73}Except in a case within subsection (2A),] A's employment income by virtue of section 554Z2(1), or the relevant part of it, is “taxable specific income” in a tax year so far as it is remitted to the United Kingdom in that year.

[Where the relevant step is within paragraph 1 of Schedule 11 to F(No. 2)A 2017, A's ^{F74}(2A) employment income by virtue of section 554Z2(1), or the relevant part of it, is “taxable specific income” in the tax year in which the relevant step is treated as being taken so far as the income is remitted to the United Kingdom in that tax year or in any previous tax year.]

(3) For [^{F75}the purposes of subsections (2) and (2A)], any income which is remitted before A's employment with B starts is treated as being remitted in the tax year in which the employment starts.

(4) Subsection (5) applies if in the relevant tax year—

- (a) A has associated employments, and
- (b) the duties of the associated employments are not performed wholly outside the United Kingdom.

(5) The amount of A's employment income to which [^{F76}subsection (2) or (2A)] applies is limited to such amount as is just and reasonable, having regard to—

- (a) A's employment income for the relevant tax year from all associated employments, together with A's employment with B,
- (b) the proportion of that income [^{F77}(or of so much of it as is attributable to the UK part of the relevant tax year, if it was a split year as respects A)] which is general earnings to which section 22 applies or is employment income to which section 41A applies,
- (c) the nature of and time devoted to the duties performed outside the United Kingdom, and those performed in the United Kingdom, in the relevant tax year [^{F78}(or the UK part of it)], and
- (d) all other relevant circumstances,

and, if the amount of A's employment income to which [^{F79}subsection (2) or (2A)] would otherwise apply exceeds that limit, the amount of A's employment income to which [^{F80}subsection (2) or (2A) (as the case may be)] applies is instead to be such amount as is just and reasonable.

(6) In this section “associated employments” means employments with B or with employers associated with B; and section 24(5) and (6) applies for the purposes of this subsection.

Textual Amendments

F68 Words in s. 554Z9 heading substituted (with effect in accordance with Sch. 46 para. 25 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 46 para. 13\(2\)](#) (with [Sch. 46 para. 26](#))

F69 Words in s. 554Z9(1) substituted (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 11 para. 40\(2\)](#)

F70 S. 554Z9(1)(c) substituted (with effect in accordance with Sch. 46 para. 25 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 46 para. 13\(1\)](#) (with [Sch. 46 para. 26](#))

F71 S. 554Z9(1A) inserted (with effect in accordance with Sch. 3 para. 7(4) of the amending Act) by [Finance Act 2014 \(c. 26\)](#), [Sch. 3 para. 5](#)

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- F72** Words in s. 554Z9(1A) substituted (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\), Sch. 11 para. 40\(3\)](#)
- F73** Words in s. 554Z9(2) inserted (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\), Sch. 11 para. 40\(4\)](#)
- F74** S. 554Z9(2A) inserted (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\), Sch. 11 para. 40\(5\)](#)
- F75** Words in s. 554Z9(3) substituted (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\), Sch. 11 para. 40\(6\)](#)
- F76** Words in s. 554Z9(5) substituted (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\), Sch. 11 para. 40\(7\)\(a\)](#)
- F77** Words in s. 554Z9(5)(b) inserted (with effect in accordance with Sch. 45 para. 153(2) of the amending Act) by [Finance Act 2013 \(c. 29\), Sch. 45 para. 70\(a\)](#)
- F78** Words in s. 554Z9(5)(c) inserted (with effect in accordance with Sch. 45 para. 153(2) of the amending Act) by [Finance Act 2013 \(c. 29\), Sch. 45 para. 70\(b\)](#)
- F79** Words in s. 554Z9(5) substituted (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\), Sch. 11 para. 40\(7\)\(b\)\(i\)](#)
- F80** Words in s. 554Z9(5) substituted (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\), Sch. 11 para. 40\(7\)\(b\)\(ii\)](#)

554Z10 Remittance basis: [^{F81}A meets section 26A requirement]

- (1) [^{F82}Subsections (2) and (2A) apply] if—
- [^{F83}(a) the value of the relevant step, or a part of it, is “for” a tax year (“the relevant tax year”) as determined under section 554Z4,]
 - (b) section 809B, 809D or 809E of ITA 2007 (remittance basis) applies to A for the relevant tax year, and
 - [^{F84}(c) A meets the requirement of section 26A for the relevant tax year (reading references there to the employee as references to A).]
- [^{F85}(2) [^{F86}Except in a case within subsection (2AA),] The overseas portion of (as the case may be)—
- (a) A's employment income by virtue of section 554Z2(1), or
 - (b) the relevant part of A's employment income by virtue of that section,
- is “taxable specific income” in a tax year so far as the overseas portion is remitted to the United Kingdom in that year.]
- [Where the relevant step is within paragraph 1 of Schedule 11 to F(No. 2)A 2017, the ^{F87}(2AA) overseas portion of (as the case may be)—
- (a) A's employment income by virtue of section 554Z2(1), or
 - (b) the relevant part of A's employment income by virtue of that section,
- is “taxable specific income” in the tax year in which the relevant step is treated as being taken so far as the overseas portion is remitted to the United Kingdom in that tax year or in any previous tax year.]
- [The overseas portion” of A's employment income by virtue of section 554Z2(1), or ^{F88}(2A) of the relevant part of that income, is so much of that income, or of the relevant part of it, as is not in respect of UK duties.
- (2B) “UK duties” means duties performed in the United Kingdom.]
- (3) For [^{F89}the purposes of this section], any income which is remitted before A's employment with B starts is treated as being remitted in the tax year in which the employment starts.

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

[^{F90}(4) The extent to which—

- (a) the employment income, or the relevant part of it, is not in respect of UK duties, or
- (b) so much of the employment income, or of the relevant part of it, as is attributable to the UK part of the relevant tax year is not in respect of UK duties,

is to be determined on a just and reasonable basis.]

Textual Amendments

- F81** Words in s. 554Z10 heading substituted (with effect in accordance with Sch. 46 para. 25 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 46 para. 14\(2\)](#) (with [Sch. 46 para. 26](#))
- F82** Words in s. 554Z10(1) substituted (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 11 para. 41\(2\)](#)
- F83** S. 554Z10(1)(a) substituted (with effect in accordance with Sch. 45 para. 153(2) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 45 para. 71\(2\)](#)
- F84** S. 554Z10(1)(c) substituted (with effect in accordance with Sch. 46 para. 25 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 46 para. 14\(1\)\(c\)](#) (with [Sch. 46 para. 26](#))
- F85** S. 554Z10(2) substituted (with effect in accordance with Sch. 45 para. 153(2) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 45 para. 71\(3\)](#)
- F86** Words in s. 554Z10(2) inserted (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 11 para. 41\(3\)](#)
- F87** [S. 554Z10\(2AA\)](#) inserted (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 11 para. 41\(4\)](#)
- F88** S. 554Z10(2A)(2B) inserted (with effect in accordance with Sch. 45 para. 153(2) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 45 para. 71\(4\)](#)
- F89** Words in s. 554Z10(3) substituted (with effect in accordance with Sch. 45 para. 153(2) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 45 para. 71\(5\)](#)
- F90** S. 554Z10(4) substituted (with effect in accordance with Sch. 45 para. 153(2) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 45 para. 71\(6\)](#)

554Z11 Remittance basis: supplementary

- (1) Subsection (2) applies if section 554Z9(1)(a) or 554Z10(1)(a) applies to a part (“the relevant part”) of the value of the relevant step.
- (2) Any reduction to the value of the relevant step to be made under any of sections 554Z5 to 554Z8 is to be made so that X% of the reduction is made by way of reducing the relevant part.
- (3) In subsection (2) “X%” means the proportion of the value of the relevant step represented by the relevant part before any reductions under any of sections 554Z5 to 554Z8.
- (4) For the purpose of applying section [^{F91}554Z9(2) or (2A) or 554Z10(2) or (2AA)] , see Chapter A1 of Part 14 of ITA 2007 for the meaning of “remitted to the United Kingdom” etc.
- (5) If the relevant step involves a sum of money, for the purposes of that Chapter the sum of money is treated as deriving from A's employment income (or the relevant part of it) to which section [^{F92}554Z9(2) or (2A) or 554Z10(2) or (2AA)] applies.

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (6) In any other case, for the purposes of that Chapter the asset which is the subject of the relevant step is treated as deriving from A's employment income (or the relevant part of it) to which section [F⁹³554Z9(2) or (2A) or 554Z10(2) or (2AA)] applies.
- (7) Subsection (8) applies if—
- (a) after the relevant step is taken, there is another relevant step (“the later relevant step”) by reason of which this Chapter applies in respect of A's employment with B, and
 - (b) within the meaning of section 554Z5, there is overlap between the sum of money or asset (“sum or asset R”) which is the subject of the relevant step and the sum of money or asset (“sum or asset S”) which is the subject of the later relevant step.
- (8) Except so far as, in any event—
- (a) sum or asset S and sum or asset R are the same sum of money or asset, or
 - (b) sum or asset S derives from sum or asset R,
- for the purposes of Chapter A1 of Part 14 of ITA 2007 sum or asset S is treated, to the extent of the overlap, as deriving from sum or asset R.
- (9) Subsections (10) and (11) apply if—
- (a) the relevant tax year within the meaning of section 554Z9 or 554Z10 is the tax year 2007-08 or any earlier tax year, and
 - (b) A—
 - (i) was UK resident in that year, but
 - (ii) was not domiciled in the United Kingdom, or was not ordinarily UK resident, in that year.
- (10) Section 554Z9 or 554Z10 (as the case may be) applies as if section 809B of ITA 2007 applied to A for the relevant tax year.
- (11) In section 554Z9(1)(d) the reference to a foreign employer is to be read as not including a person resident in the Republic of Ireland.

Textual Amendments

- F91** Words in s. 554Z11(4) substituted (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 11 para. 42\(2\)](#)
- F92** Words in s. 554Z11(5) substituted (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 11 para. 42\(3\)](#)
- F93** Words in s. 554Z11(6) substituted (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 11 para. 42\(4\)](#)

Temporary non-residents

[F⁹⁴554Z11A]

- (1) This section applies if A is temporarily non-resident.
- (2) Any amount within subsection (3) is to be treated for the purposes of section 554Z9(2) [F⁹⁵or (2A)] or (as the case may be) 554Z10(2) [F⁹⁶or (2AA)] as if it were remitted to the United Kingdom in the period of return.
- (3) An amount is within this subsection if—

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (a) it is all or part of a relevant benefit provided to a relevant person (see section 554C(2)) under a relevant scheme,
 - (b) it is provided in the form of the lump sum,
 - (c) it is remitted to the United Kingdom in the temporary period of non-residence, and
 - (d) ignoring this section—
 - (i) no charge to tax arises by virtue of section 554Z9(2) or 554Z10(2) in respect of it, but
 - (ii) such a charge would arise by virtue of one of those sections if the existence of any double taxation relief arrangements were disregarded.
- (4) Subsection (3)(d)(i) includes a case where the charge could be prevented by making a DTR claim, even if no claim is in fact made.
- (5) Nothing in any double taxation relief arrangements is to be read as preventing A from being chargeable to income tax in respect of any income treated by virtue of this section as remitted to the United Kingdom in the period of return (or as preventing a charge to that tax from arising as a result).
- (6) Part 4 of Schedule 45 to FA 2013 (statutory residence test: anti-avoidance) explains—
- (a) when an individual is to be regarded as “temporarily non-resident”, and
 - (b) what “the temporary period of non-residence” and “the period of return” mean.
- (7) In this section—
- “double taxation relief arrangements” means arrangements that have effect under section 2(1) of TIOPA 2010;
 - “DTR claim” means a claim for relief under section 6 of that Act;
 - “relevant benefit” has the same meaning as in Chapter 2 of Part 6;
 - “relevant scheme” means an employer-financed retirement benefits scheme (within the meaning of that Chapter) or a superannuation fund to which section 615(3) of ICTA applies;
 - “remitted to the United Kingdom” has the same meaning as in Chapter A1 of Part 14 of ITA 2007.]

Textual Amendments

- F94** S. 554Z11A inserted (with effect in accordance with Sch. 45 para. 153(3) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 45 para. 127](#)
- F95** Words in s. 554Z11A(2) inserted (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 11 para. 43\(2\)\(a\)](#)
- F96** Words in s. 554Z11A(2) inserted (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 11 para. 43\(2\)\(b\)](#)

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

[^{F97}Double taxation: earlier income tax liability

Textual Amendments

F97 Ss. 554Z11B-554Z11G and cross-heading inserted (with effect in accordance with Sch. 6 para. 15(2) (3) of the amending Act) by Finance Act 2017 (c. 10), Sch. 6 para. 11

554Z11B Earlier income tax liability: application of section 554Z11C

- (1) Section 554Z11C applies if the conditions in subsections (2) and (3) are met.
- (2) The first condition is that there is overlap between—
 - (a) the sum of money or asset (“sum or asset P”) which is the subject of the relevant step, and
 - (b) a sum of money or asset (“sum or asset Q”) by reference to which, on an occasion that occurred before the relevant step is taken, A became subject to a liability for income tax (“the earlier tax liability”).
- (3) The second condition is that at the time the relevant step is taken—
 - (a) an amount is payable by a person (the “liable person”) in respect of the earlier tax liability, but the whole or part of that amount is unpaid and not otherwise accounted for, and
 - (b) the liable person has not agreed any terms with an officer of Revenue and Customs for the discharge of the earlier tax liability.
- (4) For the purposes of this section there is overlap between sum or asset P and sum or asset Q so far as it is just and reasonable to conclude that—
 - (a) they are the same sum of money or asset, or
 - (b) sum or asset P directly, or indirectly, represents sum or asset Q.
- (5) In subsection (2)(b)—
 - (a) the reference to A includes a reference to any person linked with A, and
 - (b) the reference to a liability for income tax does not include a reference to a liability for income tax arising by reason of section 175 (benefit of taxable cheap loan treated as earnings).

554Z11C Earlier income tax liability: treatment of payments

- (1) In this section—
 - (a) “the earlier charge” means so much of the earlier tax liability as relates to the overlap between sum or asset P and sum or asset Q, and
 - (b) “the Chapter 2 overlap charge” means so much of the Chapter 2 tax liability as relates to the overlap between sum or asset P and sum or asset Q.
- (2) The amount of a tax liability that relates to the overlap between sum or asset P and sum or asset Q is to be determined on a just and reasonable basis.
- (3) Subsection (4) applies where, after the relevant step is taken, an amount (the “earlier charge paid amount”) is paid in respect of all or part of—
 - (a) the earlier charge, or
 - (b) any late payment interest in respect of the charge.

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (4) An amount equal to the earlier charge paid amount is treated as a payment on account of—
 - (a) the Chapter 2 overlap charge, or
 - (b) if that charge has been paid in full, any late payment interest payable in respect of the charge.
- (5) Except where subsection (10) applies, subsection (6) applies where an amount (the “Chapter 2 paid amount”) is paid in respect of all or part of—
 - (a) the Chapter 2 overlap charge, or
 - (b) any late payment interest in respect of the charge.
- (6) An amount equal to the Chapter 2 paid amount is treated as a payment on account of—
 - (a) the earlier charge, or
 - (b) if the earlier charge has been paid in full, any late payment interest payable in respect of the charge.
- (7) Subsection (10) applies where—
 - (a) the condition in 554Z11B(2) is met because there is overlap between sum or asset P and each of two or more items within section 554Z11B(2)(b), and
 - (b) an amount (the “Chapter 2 aggregate paid amount”) is paid in respect of all or part of—
 - (i) two or more relevant Chapter 2 overlap charges, or
 - (ii) any late payment interest in respect of any of those charges.
- (8) In subsection (7)(b), “relevant Chapter 2 overlap charge” means so much of the Chapter 2 tax liability as relates to the overlap between sum or asset P and one of those items within section 554Z11B(2)(b).
- (9) For the purposes of subsection (10)—
 - (a) in the case of each of those items, the “earlier charge” in respect of the overlap between sum or asset P and the item is so much of the liability mentioned in section 554Z11B(2)(b) in the case of the item as relates to the overlap, and
 - (b) the Chapter 2 aggregate paid amount is to be allocated, in such proportions as are just and reasonable in all the circumstances, between the earlier charges given by paragraph (a).
- (10) The amount allocated to an earlier charge under subsection (9) is treated as a payment on account of—
 - (a) the earlier charge to which it is allocated, and
 - (b) if the earlier charge has been paid in full, any late payment interest payable in respect of the charge.
- (11) In this section—
 - “late payment interest” means interest payable under—
 - (a) section 86 of TMA 1970,
 - (b) section 101 of FA 2009, or
 - (c) regulation 82 of the Income Tax (Pay As You Earn) Regulations 2003 (S.I. 2003/2682);
 - “Chapter 2 tax liability” means the liability for income tax arising by virtue of the application of Chapter 2 by reason of the relevant step.

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

554Z11DEarlier income tax liability: provisional payments of tax

- (1) Subsection (2) applies for the purposes of—
 - (a) section 554Z11B(3)(a), and
 - (b) section 554Z11C(3), (4)(b), (7)(b) and (10)(b).
- (2) A person is not to be regarded as having paid, or otherwise accounted for, any tax by reason only of making a provisional payment of tax, except in accordance with an application granted under section 554Z11E.
- (3) In this Part, “provisional payment of tax” means—
 - (a) a payment on account of income tax,
 - (b) a payment that is treated as a payment on account under section 223(3) of FA 2014 (accelerated payments), or
 - (c) a payment pending determination of an appeal made in accordance with section 55 of TMA 1970.
- (4) The reference in subsection (3)(a) to a payment on account of income tax does not include a reference to a payment treated under section 554Z11C as a payment on account of a tax liability.

554Z11EApplication for provisional payments to be treated as payment of tax

- (1) A person may make an application to Her Majesty's Revenue and Customs for a provisional payment of tax to be treated for the purposes of section 554Z11C as—
 - (a) an earlier charge paid amount,
 - (b) a Chapter 2 paid amount, or
 - (c) a Chapter 2 aggregate paid amount.
- (2) Where an application under subsection (1) is granted, the provisional payment of tax to which it relates may not be repaid.
- (3) An application for approval must be made in such form and manner, and contain such information, as may be specified by, or on behalf of, the Commissioners for Her Majesty's Revenue and Customs.
- (4) An officer of Revenue and Customs must notify the applicant of the decision on an application.

554Z11FProvisional payments of tax: further provision

- (1) This section applies in a case to which section 554Z11C applies (see section 554Z11B(1)).
- (2) If a provisional payment of tax is made in respect of an earlier charge in relation to an overlap, it is to be treated as also being made in respect of the Chapter 2 overlap charge in relation to the overlap.
- (3) If a provisional payment of tax is made in respect of a Chapter 2 overlap charge in relation to an overlap, it is to be treated as also being made in respect of the earlier charge in relation to the overlap.
- (4) If section 554Z11C(10) applies in a case (see section 554Z11C(7)) and a provisional payment of tax is made in respect of two or more relevant Chapter 2 overlap charges—

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (a) the amount of the provisional payment of tax is to be allocated, in such proportions as are just and reasonable in all the circumstances, between those relevant Chapter 2 overlap charges, and
 - (b) a provisional payment of tax, equal to the amount allocated to the relevant Chapter 2 overlap charge relating to any particular overlap, is to be treated as also being made in respect of the earlier charge given by section 554Z11C(9) in respect of that overlap.
- (5) Subsection (6) applies if—
- (a) the provisional payment of tax is repaid, and
 - (b) late payment interest on the earlier charge or the Chapter 2 overlap charge would have accrued during the relevant period if the provisional payment of tax had not been made.
- (6) The late payment interest mentioned in subsection (5) is treated as having accrued as if the provisional payment of tax had not been made.
- (7) For the purposes of subsection (5), the “relevant period” is the period beginning on the day on which the provisional payment of tax is made and ending with the day on which the repayment is made.

554Z11C Earlier income tax liability: supplementary provision

- (1) This section applies in a case to which section 554Z11C applies (see section 554Z11B(1)).
- (2) Subsection (3) applies where an employer is treated by virtue of section 687A or 695A as making a payment of income (“the notional payment”) by reason of the value of the relevant step, of which sum or asset P is the subject, counting as employment income.
- (3) The reference in section 222 (payments by employer on account of tax where deduction not possible) to the notional payment is to be treated as a reference to that payment reduced by an amount equal to so much of the sum of money or (as the case may be) the value of so much of the asset—
 - (a) as is within the overlap, and
 - (b) in relation to which an amount is treated under section 554Z11C as a payment on account of either the earlier charge or the Chapter 2 overlap charge.
- (3) Subsection (4) applies for the purposes of sections 65(5)(b) and 70(3)(b) of the Inheritance Tax Act 1984 (tax relief for payments which are income of a person for income tax purposes etc).
- (4) The value of the relevant step of which sum or asset P is the subject is to be treated as reduced by an amount equal to so much of the sum of money or (as the case may be) the value of so much of the asset —
 - (a) as is within the overlap, and
 - (b) in relation to which an amount is treated under section 554Z11C as a payment on account of either the earlier charge or the Chapter 2 overlap charge.]

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

Supplementary

554Z12 Relevant step taken after A's death etc

- (1) Subsection (3), (4) or (5) (as the case may be) applies if the relevant step is a step within section 554C [^{F98}, by virtue of subsection (1)(a) or (b) to (e) of that section,] or 554D and—

- (a) the relevant step is taken on or after A's death, or
- (b) if relevant, any of A's employment income by virtue of section 554Z2(1) is remitted to the United Kingdom on or after A's death.

But none of those subsections applies if A's employment with B never started before A's death.

- (2) In subsections (3) to (5) “the relevant person” means the relevant person (within the meaning of section 554C(1) or 554D(1) or (2)) in relation to the relevant step.

- (3) If the relevant person is A, A's personal representatives are liable for, as the case may be, the income tax on—

- (a) A's employment income by virtue of section 554Z2(1), or
- (b) so much of that income as is remitted.

- (4) If the relevant person is an individual other than A, the amount which, as the case may be—

- (a) counts as employment income of A, or
- (b) is remitted,

is to count as an amount of employment income of the relevant person for the tax year in which the relevant step is taken or the income is remitted.

- (5) If the relevant person is not an individual, the relevant taxable person is chargeable to income tax on the amount which, as the case may be—

- (a) counts as employment income of A, or
- (b) is remitted.

- (6) In subsection (5) “the relevant taxable person” is to be read as follows—

- (a) if the person (or any of the persons) who took the relevant step is UK resident, “the relevant taxable person” is the person (or each of the UK resident persons) who took the relevant step,
- (b) if paragraph (a) does not apply and B is still alive or in existence when the relevant step is taken, “the relevant taxable person” is B, or
- (c) if neither paragraph (a) nor paragraph (b) applies, “the relevant taxable person” is the non-UK resident person (or each of the non-UK resident persons) who took the relevant step.

- (7) For the purposes of subsection (5)—

- (a) the rate of tax is the rate applying for the purposes of section 394(2) (see section 394(4)) at the time of the relevant step or remittance of income, and
- (b) the tax is charged for the tax year in which the relevant step is taken or the income is remitted.

- (8) If there is more than one relevant person in relation to the relevant step, the amount which, as the case may be—

- (a) counts as employment income of A, or

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

(b) is remitted,

is to be apportioned between the relevant persons on a just and reasonable basis with subsections (3) to (5) applying accordingly.

[Section 554Z4A and section 554Z11A apply for the purposes of subsection (4) as ^{F99}(9) for the purposes of section 554Z2 and section 554Z9(2) or 554Z10(2) respectively (reading references in sections 554Z4A and 554Z11A to “A” as references to “the relevant person”).

(10) But those sections do not apply for the purposes of subsection (4) if the relevant person's temporary period of non-residence began before A died.]

Textual Amendments

F98 Words in s. 554Z12(1) inserted (with effect in accordance with Sch. 6 para. 13 of the amending Act) by [Finance Act 2017 \(c. 10\)](#), [Sch. 6 para. 7](#)

F99 S. 554Z12(9)(10) inserted (with effect in accordance with Sch. 45 para. 153(3) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 45 para. 128](#)

554Z13 Subsequent income tax liability

(1) This section applies if—

- (a) after the relevant step is taken, another event (“the later event”) occurs,
- (b) other than by virtue of—
 - (i) this Chapter,
 - (ii) Chapters 2 to 5 of Part 7, or
 - (iii) Part 9,

the later event would (apart from this section) give rise to a liability for income tax of A or any other person on an amount (“the later amount”), and

- (c) it is just and reasonable for this section to apply in order to avoid a double charge to income tax in respect of the sum of money or asset which is the subject of the relevant step.

(2) So far as it is just and reasonable in order to avoid a double charge to income tax as mentioned in subsection (1)(c), there is to be no liability to income tax on the later amount by virtue of the later event.

554Z14 Relief where earmarking not followed by further relevant step

(1) An application for relief may be made by A (or, if A has died, A's personal representatives) to an officer of Revenue and Customs if—

- (a) this Chapter has applied by reason of a relevant step (“the original relevant step”) within section 554B taken by a person (“P”),
- (b) there occurs an event (“the relevant event”) which is not a relevant step in relation to a relevant sum or asset,
- (c) by reason of the relevant event no further relevant step is or will be taken by P or any other person in relation to any relevant sum or asset, and
- (d) there is no connection (direct or indirect) between the relevant event and a tax avoidance arrangement.

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (2) In section 554Z(15) the reference to the avoidance of tax includes (in particular) a reference to the avoidance of tax by way of obtaining relief under this section.
- (3) In subsection (1) “relevant sum or asset” means—
 - (a) the sum of money or asset which is the subject of the original relevant step, or
 - (b) a sum of money or asset which (directly or indirectly) has arisen or derived, or may arise or derive, from the sum of money or asset mentioned in paragraph (a).
- (4) The application for relief must be made within four years from the time when the relevant event occurs.
- (5) If an officer of Revenue and Customs is satisfied that the requirements in subsection (1) are met, the officer must give such relief as the officer considers just and reasonable (if any) in respect of income tax paid on any previously charged amount.
- (6) In subsection (5) “previously charged amount” means—
 - (a) the amount which counted as employment income of A under this Chapter as a result of this Chapter applying by reason of the original relevant step, or
 - (b) any amount treated by section 222 as earnings of A in relation to the notional payment (within the meaning of that section) which B is treated as having made by virtue of the original relevant step.
- (7) Subsection (8) applies if, by virtue of this Chapter having applied by reason of the original relevant step, any tax liability of A or any other person arising from another event is reduced (including to nil) by virtue of section 554Z5 or 554Z13 or otherwise.
- (8) In determining what is a just and reasonable amount of relief, the officer of Revenue and Customs must have regard (in particular) to the reduction in the tax liability and reduce the amount of relief which would otherwise have been given accordingly (including to nil).
- (9) The relief is to be given by repayment or otherwise as appropriate.
- (10) In relation to times after the relief is given, the Tax Acts have effect as if this Chapter had never applied by reason of the original relevant step.

554Z15 Location of employment duties

The following provisions apply for the purposes of this Chapter—

- (a) section 38 (but as if references to general earnings were to the value of the relevant step or a part of it),
- (b) section 39(1) and (2),
- (c) section 40 (but as if in subsections (3) and (4) references to section 24(1)(b) were to section 554Z9(4)(b)), and
- (d) section 41 (but as if references to general earnings were to the value of the relevant step or a part of it).

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

CHAPTER 3

UNDERTAKINGS GIVEN BY EMPLOYERS ETC IN RELATION TO RETIREMENT BENEFITS ETC

554Z16 Application etc

- (1) This Chapter applies if there is an undertaking (“the relevant undertaking”) that a contribution to which subsection (2) would apply will be paid.
- (2) This subsection applies to a contribution if—
 - (a) the contribution is paid to an arrangement which is not a registered pension scheme,
 - (b) in connection with that arrangement (directly or indirectly), relevant benefits are to be provided (directly or indirectly) out of the contribution by a relevant third person,
 - (c) the provision of the relevant benefits would be a relevant step, and
 - (d) the contribution is neither a tax-relieved contribution nor tax-exempt provision.
- (3) In subsection (2)—

“relevant benefits” has the same meaning as in Chapter 2 of Part 6, but ignoring section 393B(2)(a),

“relevant third person” means a person within section 554A(7)(a) to (c) (ignoring this Chapter), and

“tax-exempt provision” and “tax-relieved contribution” have the meaning given by paragraph 3(3) and (4) of Schedule 34 to FA 2004.
- (4) In this Chapter references to an undertaking include references to—
 - (a) an undertaking which is not legally enforceable, and
 - (b) an undertaking which is to be performed only on or following the meeting of a condition (including a condition which might never be met).

554Z17 Employer etc to be treated as relevant third person etc

- (1) If B takes a step within section 554Z18 or 554Z19, Chapters 1 and 2 have effect in relation to the step—
 - (a) as if B were a relevant third person for the purposes of section 554A(1)(d), and
 - (b) as if the step were a relevant step within section 554B (if it would not otherwise be).
- (2) For the purpose of determining whether Chapter 2 applies by reason of the step, Chapter 1 has effect—
 - (a) as if sections 554F to 554O, 554S to 554U, 554W and 554X were omitted,
 - (b) if the step is within section 554Z18, as if sections 554Q(2)(d), (3) and (4) and 554R(1)(c) and (d), (2) and (3) were omitted, and
 - (c) if the step is within section 554Z19, as if sections 554Q and 554R were omitted.
- (3) If Chapter 2 applies by reason of the step, Chapter 2 has effect as if sections 554Z7 to 554Z12 were omitted.

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (4) If Chapter 2 does not apply by reason of the step by virtue of section 554E(3) or (6), section 554E(10) and (11) does not apply in relation to the step.
- (5) For further modifications of Chapters 1 and 2, see sections 554Z18(3) and (4), 554Z19(5) and (6), 554Z20 and 554Z21.
- (6) Regulations under section 554Y may (in particular) make provision covering cases in which Chapters 1 and 2 have effect as provided for by this section.
- (7) In this Chapter—
 - (a) references to B do not include references to B acting as a trustee,
 - (b) if B is a company and is a member of a group of companies, references to B are to be read as including references to any other company which is a member of that group, and
 - (c) if B is a limited liability partnership, references to B are to be read as including references to any company which is a wholly-owned subsidiary (as defined in section 1159(2) of the Companies Act 2006) of B.

554Z18 Earmarking etc

- (1) B takes a step within this section if—
 - (a) a sum of money or asset held by or on behalf of B is earmarked (however informally) by B with a view to the relevant undertaking being performed at a later time (wholly or partly) out of—
 - (i) that sum of money or asset, or
 - (ii) any sum of money or asset which may arise or derive (directly or indirectly) from it, or
 - (b) a sum of money or asset otherwise starts being held by or on behalf of B, specifically with a view, so far as B is concerned, to the relevant undertaking being performed at a later time (wholly or partly) out of—
 - (i) that sum of money or asset, or
 - (ii) any sum of money or asset which may arise or derive (directly or indirectly) from it.
- (2) For the purposes of subsection (1)(b) it does not matter whether or not the sum of money or asset in question has previously been held by or on behalf of B on a basis which is different to that mentioned in subsection (1)(b).
- (3) Subsection (4) applies if, in the application of section 554Q or 554R in any case, the relevant step mentioned in section 554Q(2)(a) or 554R(6)(a) is a step within this section taken by B.
- (4) In section 554Q(2)(c) or 554R(6)(c) (as the case may be) the reference to section 554B(1)(a) or (b) is to be read as a reference to subsection (1)(a) or (b) above.

554Z19 Provision of security

- (1) B takes a step within this section if B provides security for the performance of the relevant undertaking.
- (2) For the purposes of this Part, the sum of money or asset which is the subject of the step is to be taken to be—

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (a) any sums of money which, as at the time the step is taken, are the subject of the security, and
 - (b) any assets which, as at that time, are the subject of the security,
- and references to the sum of money or asset which is the subject of a relevant step are to be read accordingly.
- (3) If, when the step is taken, the security covers other undertakings as well as the relevant undertaking, the sums of money and assets within subsection (2)(a) and (b) are to be apportioned between the relevant undertaking and the other undertakings on a just and reasonable basis.
- (4) Subsections (2) and (3) are subject to section 554Z20(7).
- (5) Section 554Q does not apply in any case in which the relevant step mentioned in section 554Q(2)(a) would be a step within this section taken by B.
- (6) Section 554R(6) does not apply in any case in which the relevant step mentioned in section 554R(6)(a) would be a step within this section taken by B.
- (7) In this Chapter references to providing security for the performance of an undertaking are references to providing such security in any way, however informal.

554Z20 Valuation of step within section 554Z19

- (1) This section applies if, by virtue of section 554Z17, Chapter 2 applies by reason of a step taken by B within section 554Z19.
- (2) Section 554Z3 has effect as if subsections (3) and (4) below were substituted for subsections (1) to (6) of that section.
- (3) The value of the relevant step is—
- (a) the amount to be paid as a contribution under the relevant undertaking determined, as at the time the step is taken, on a just and reasonable basis assuming that any condition to be met before any payment is made will be met, or
 - (b) if lower, the value of the security.
- (4) For the purposes of subsection (3)(b) the value of the security—
- (a) consists of—
 - (i) the total amount of the sums of money included in the subject of the step (see section 554Z19(2)(a)), and
 - (ii) the total market value, as at the time the step is taken, of the assets included in the subject of the step (see section 554Z19(2)(b)), but
 - (b) is to be subject to a just and reasonable reduction to take account of any term of the security which limits the total amount which may be made available under the security for the performance of the relevant undertaking to an amount which is lower than the amount determined under paragraph (a).
- (5) The following subsections apply if, as at the end of the day of an anniversary of the taking of the step (“the anniversary day”), B continues to provide the security for the performance of the relevant undertaking.
- (6) This Part has effect as if B's continuing to provide the security were a new step (“the anniversary step”) within section 554Z19—

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A. (See end of Document for details)

- (a) which is taken by B at the end of the anniversary day, and
 - (b) by reason of which Chapter 2 is to apply by virtue of section 554Z17 (subject only to section 554A(4)).
- (7) If the total amount of the sums of money which are the subject of the security (“the security sums”) varies from time to time, for the purpose of determining the sums of money included in the subject of the anniversary step, in section 554Z19(2)(a) the reference to the time the step is taken is to be read as a reference to the time during the preceding year at which the total amount of the security sums is at its highest.
- (8) For the purposes of subsection (4)(a)(ii) the market value of any asset included in the subject of the anniversary step may be determined as at any time during the preceding year (so long as the asset is the subject of the security, or one of the assets which is the subject of the security, as at that time).
- (9) In subsections (7) and (8) “the preceding year” means the year ending with the anniversary day.

554Z21 Relief for earmarking or security not followed by contribution or relevant benefit

- (1) This section applies if, by virtue of section 554Z17, Chapter 2 applies by reason of a step taken by B within section 554Z18 or 554Z19.
- (2) Section 554Z14 has effect in relation to the step with the following modifications.
- (3) Subsection (1)(b) has effect as if for “not a relevant step in relation to a relevant sum or asset” there were substituted “neither the payment of the relevant contribution (or any part of it) nor the provision of any relevant benefit”.
- (4) Subsection (1)(c) has effect as if for the words from “no further relevant step” to “any relevant sum or asset” there were substituted “the relevant contribution (or any part of it) will not be paid or a relevant benefit will not be provided”.
- (5) Subsection (1) has effect as if subsection (6) below were substituted for subsection (3).
- (6) In subsection (1)—
- (a) “the relevant contribution” means the contribution to be paid under the relevant undertaking (within the meaning of Chapter 3), and
 - (b) “relevant benefit” means a relevant benefit to be provided out of the relevant contribution as mentioned in section 554Z16(2)(b) and (c).]

Changes to legislation:

There are currently no known outstanding effects for the Income Tax (Earnings and Pensions) Act 2003, Part 7A.