



Income Tax (Earnings and Pensions) Act 2003

2003 CHAPTER 1

PART 7

[^{F1}EMPLOYMENT INCOME: INCOME AND EXEMPTIONS RELATING TO SECURITIES]

CHAPTER 6

^{F1}... SHARE INCENTIVE PLANS

Tax advantages connected with shares ceasing to be subject to plan

497 Limitations on charges on shares ceasing to be subject to plan

- (1) No liability to income tax arises on free or matching shares ceasing to be subject to the plan, except as provided by—
 - (a) section 505 (charge on free or matching shares ceasing to be subject to plan),
or
 - (b) section 507 (charge on disposal of beneficial interest during holding period).
- (2) No liability to income tax arises on partnership shares ceasing to be subject to the plan, except as provided by section 506 (charge on partnership shares ceasing to be subject to plan).
- (3) No liability to income tax arises on dividend shares ceasing to be subject to the plan, except [^{F1}under Chapter 3 or 4 of Part 4 of ITTOIA 2005 (dividends etc. from UK or non-UK resident companies etc.) as a result of section 394(2) or 407(2) of that Act (distribution or dividend payment when dividend shares cease to be subject to plan).]

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Textual Amendments

- F1** Words in s. 497(3) substituted (6.4.2005) by [Income Tax \(Trading and Other Income\) Act 2005 \(c. 5\)](#), s. 883(1), [Sch. 1 para. 602](#) (with [Sch. 2](#))

498 No charge on shares ceasing to be subject to plan in certain circumstances

- (1) A participant is not liable to income tax on shares ceasing to be subject to the plan if—
- (a) they cease to be so subject on the participant ceasing to be in relevant employment, and
 - (b) subsection (2) applies.
- (2) This subsection applies if the participant ceases to be in relevant employment—
- (a) because of injury or disability,
 - (b) on being dismissed by reason of redundancy,
 - (c) by reason of [^{F2}a relevant transfer within the meaning of the Transfer of Undertakings (Protection of Employment) Regulations 2006],
 - (d) if the relevant employment is employment by an associated company (see paragraph 95(2) of Schedule 2), by reason of a change of control or other circumstances ending that company's status as an associated company,
 - (e) by reason of the participant's retirement ^{F3} ..., or
 - (f) on the participant's death.
- [^{F4}(3) A participant is not liable to income tax on shares ("the relevant shares") in a company ("the relevant company") being withdrawn from the plan if—
- (a) the withdrawal of the relevant shares from the plan relates to—
 - (i) a transaction resulting from a compromise, arrangement or scheme falling within subsection (9),
 - (ii) an offer forming part of a general offer falling within subsection (10), or
 - (iii) the application of sections 979 to 982 or 983 to 985 of the Companies Act 2006 in the case of a takeover offer (as defined in section 974 of that Act) falling within subsection (13), and
 - (b) as a result of, as the case may be—
 - (i) the transaction,
 - (ii) the offer, or
 - (iii) the application of sections 979 to 982 or 983 to 985 of the Companies Act 2006,

the participant receives cash (and no other assets) in exchange for the relevant shares.
- (4) For the purposes of subsection (3)(b) it does not matter if the participant receives other assets in exchange for shares other than the relevant shares.
- (5) Subsection (3) does not apply to the relevant shares (or to a proportion of them) if in connection with, as the case may be—
- (a) the compromise, arrangement or scheme,
 - (b) the general offer, or
 - (c) the takeover offer,

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a course of action was open to the participant which, had it been followed, would have resulted in other assets being received in exchange for the relevant shares (or the proportion of them) instead of cash.

(6) Subsection (3) does not apply to the relevant shares (or to a proportion of them) if it is reasonable to suppose that the relevant shares (or the proportion of them) would not have been awarded to the participant—

(a) had, as the case may be—

- (i) the compromise, arrangement or scheme,
- (ii) the general offer, or
- (iii) the takeover offer,

not been made, or

(b) had any arrangements for the making of—

- (i) a compromise, arrangement or scheme which would fall within subsection (9),
- (ii) a general offer which would fall within subsection (10), or
- (iii) a takeover offer (as defined in section 974 of the Companies Act 2006) which would fall within subsection (13),

which were in place or under consideration at any time not been in place or under consideration.

(7) In subsection (6) the reference to shares being awarded to the participant is to be read, in the case of dividend shares, as a reference to the shares being acquired by the trustees on the participant's behalf.

(8) In subsection (6)(b) “arrangements” includes any plan, scheme, agreement or understanding, whether or not legally enforceable.

(9) A compromise, arrangement or scheme falls within this subsection if it is applicable to or affects—

- (a) all the ordinary share capital of the relevant company or all the shares of the same class as the relevant shares, or
- (b) all the shares, or all the shares of that same class, which are held by a class of shareholders identified otherwise than by reference to their employment or their participation in [^{F5}a Schedule 2] SIP.

(10) A general offer falls within this subsection if—

- (a) it is made to holders of shares of the same class as the relevant shares or to holders of shares in the relevant company, and
- (b) it is made in the first instance on a condition such that if it is satisfied the person making the offer will have control of the relevant company.

(11) For the purposes of subsection (10) it does not matter if the general offer is made to different shareholders by different means.

(12) In subsection (10)(b) “control” has the meaning given by sections 450 and 451 of CTA 2010.

(13) A takeover offer falls within this subsection if—

- (a) it relates to the relevant company, and
- (b) where there is more than one class of share in the relevant company, the class or classes to which it relates is or include the class of the relevant shares.]

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Textual Amendments

- F2** Words in s. 498(2)(c) substituted (6.4.2006) by [The Transfer of Undertakings \(Protection of Employment\) Regulations 2006 \(S.I. 2006/246\)](#), reg. 1(2), **Sch. 2 para. 12(2)** (with reg. 21(1))
- F3** Words in s. 498(2)(e) omitted (17.7.2013) by virtue of [Finance Act 2013 \(c. 29\)](#), **Sch. 2 para. 2** (with [Sch. 2 para. 17](#))
- F4** S. 498(3)-(13) inserted (17.7.2013) by [Finance Act 2013 \(c. 29\)](#), **Sch. 2 para. 19**
- F5** Words in s. 498(9)(b) substituted (6.4.2014) by [Finance Act 2014 \(c. 26\)](#), **Sch. 8 paras. 5, 89** (with [Sch. 8 paras. 90-96](#))

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Changes and effects yet to be applied to the whole Act associated Parts and Chapters:

Whole provisions yet to be inserted into this Act (including any effects on those provisions):

- s. 452(2)(aa) inserted by [2013 c. 29 Sch. 23 para. 11](#)
- s. 574A(2A) inserted by [2024 c. 3 Sch. 9 para. 61\(2\)](#)
- s. 637G(2)(a)(b) inserted by [S.I. 2024/356 reg. 2](#)
- s. 637Q applied (with modifications) by 2004 c. 12, Sch. 36 para. 20(1A) (as inserted) by [2024 c. 3 Sch. 9 para. 77\(3\)](#)
- s. 637R applied (with modifications) by 2004 c. 12, Sch. 36 para. 19(2)(2A) (as substituted) by [2024 c. 3 Sch. 9 para. 76\(4\)](#)
- s. 637S applied (with modifications) by 2004 c. 12, Sch. 36 para. 20(2) (as amended) by [2024 c. 3 Sch. 9 para. 77\(4\)\(a\)](#)
- s. 688AB inserted by [2024 c. 3 s. 17\(1\)](#)
- s. 707A inserted by [2024 c. 3 s. 36\(4\)](#)