



Income Tax (Earnings and Pensions) Act 2003

2003 CHAPTER 1

PART 7

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

[^{F1}CHAPTER 4A

SHARES IN RESEARCH INSTITUTION SPIN-OUT COMPANIES

Textual Amendments

F1 Pt. 7 Ch. 4A inserted (with effect in accordance with s. 20(5)-(7) of the amending Act) by [Finance Act 2005 \(c. 7\), s. 20\(1\)](#)

Introduction

451 Application of this Chapter

(1) This Chapter applies where—

- (a) an agreement is made for one or more transfers of intellectual property (an “intellectual property agreement”) from one or more research institutions to a company (a “spin-out company”),
- (b) a person acquires shares (or an interest in shares) in the spin-out company before the intellectual property agreement is made or within the period of 183 days beginning with the date on which it is made,
- (c) the right or opportunity to acquire the shares (or interest in shares) was available by reason of employment by the research institution (or any of them) or by the spin-out company, and

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- (d) the person is involved in research in relation to any of the intellectual property that is the subject of the intellectual property agreement.
- (2) But this Chapter does not apply if the avoidance of tax or national insurance is the main purpose (or one of the main purposes) of the arrangements under which the right or opportunity to acquire the shares (or interest in shares) is made available.

Tax relief on acquisition

452 Market value on acquisition

- (1) For the relevant tax purposes the market value of the shares (or interest in shares) at the time of the acquisition is to be calculated disregarding the effect on that market value of the intellectual property agreement and any transfer of intellectual property pursuant to it.
- (2) For the purposes of subsection (1) “the relevant tax purposes” are—
- (a) determining any amount that is to constitute earnings from the employment under Chapter 1 of Part 3 (earnings),
 - (b) determining the amount of any gain realised on the occurrence of an event that is a chargeable event by virtue of section 439(3)(a) (conversion),
 - (c) operating Chapter 3C of this Part (acquisition of securities for less than market value),^{F2}...
 - (d) determining any amount that counts as employment income of the employee under Chapter 5 of this Part (securities acquired pursuant to securities option)^{F3}, and
 - (e) determining any amount that counts as employment income of the employee in respect of the employment under Chapter 2 of Part 7A (employment income provided through third parties)]

Textual Amendments

- F2** Word in s. 452(2) omitted (with effect in accordance with [Sch. 2 paras. 52-59](#) of the amending Act) by virtue of [Finance Act 2011 \(c. 11\)](#), [Sch. 2 para. 24\(a\)](#)
- F3** S. 452(2)(e) and word inserted (with effect in accordance with [Sch. 2 paras. 52-59](#) of the amending Act) by virtue of [Finance Act 2011 \(c. 11\)](#), [Sch. 2 para. 24\(b\)](#)

Modifications etc. (not altering text)

- C1** S. 452(1) applied (with effect in accordance with s. 21(1) of the amending Act) by [Finance Act 2005 \(c. 7\)](#), [s. 21\(2\)](#)
- C2** S. 452(2)(a) applied (with effect in accordance with s. 21(1) of the amending Act) by [Finance Act 2005 \(c. 7\)](#), [s. 21\(2\)](#)
- C3** S. 452(2)(c)(d) applied (with effect in accordance with s. 21(1) of the amending Act) by [Finance Act 2005 \(c. 7\)](#), [s. 21\(2\)](#)

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Tax relief following acquisition

453 Taxable amount under Chapter 4

- (1) If the shares are (or interest in shares is) acquired before the intellectual property agreement is made, or before any transfer of intellectual property pursuant to it, and any benefit deriving from the intellectual property agreement or any such transfer is received by the employee in connection with the shares (or interest in shares), the taxable amount determined under section 448 (post-acquisition benefits from securities: amount of charge) is to be treated as nil.
- (2) But this section does not apply if something which affects the shares (or interest in shares) has been done (at or before the time when the intellectual property agreement is made or intellectual property is transferred) as part of a scheme or arrangement the main purpose (or one of the main purposes) of which is the avoidance of tax or national insurance contributions.

Modifications etc. (not altering text)

- C4** S. 453(1) applied (with effect in accordance with s. 21(1) of the amending Act) by [Finance Act 2005 \(c. 7\), s. 21\(2\)](#)

Disapplication of Chapters 2 and 3B

454 Deemed election for disapplication of Chapter 2

- (1) If the shares are restricted securities (or the interest in shares is a restricted interest in securities), the employer and the employee are to be treated as making an election under section 431(1) (election for disapplication of Chapter 2) in relation to the shares (or interest in shares).
- (2) But the employer and the employee may agree that subsection (1) is not to apply in relation to the shares (or interest in shares).
- (3) An agreement under subsection (2) is irrevocable and—
 - (a) must be made in a form approved by the Board of the Inland Revenue, and
 - (b) may not be made more than 14 days after the acquisition.
- (4) If the employer and the employee make an agreement under subsection (2) in relation to the shares (or interest in shares), subsection (5) applies for the purposes of determining the taxable amount for the purposes of section 426 (charge on occurrence of chargeable event) on the occurrence on any chargeable event in relation to the shares (or interest in shares).
- (5) In determining under section 428(3) (amount of charge) what would have been the market value of the shares (or interest in shares) at the time of the acquisition but for any restrictions (IUMV), that market value is to be calculated disregarding the effect on that market value of the intellectual property agreement and any transfer of intellectual property pursuant to it.

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455 Disapplication of Chapter 3B

For the purposes of Chapter 3B (securities with artificially enhanced market value) neither the intellectual property agreement nor any transfer of intellectual property pursuant to it are things done otherwise than for genuine commercial purposes.

Supplementary

456 Meaning of “intellectual property” and “transfer”

- (1) In this Chapter “intellectual property” means—
 - (a) any patent, trade mark, registered design, copyright or design right, plant breeders' rights or rights under section 7 of the Plant Varieties Act 1997,
 - (b) any right under the law of a country or territory outside the United Kingdom corresponding to, or similar to, a right within paragraph (a),
 - (c) any information or technique not protected by a right within paragraph (a) or (b) but having industrial, commercial or other economic value,
 - (d) any licence or other right in respect of anything within paragraph (a), (b) or (c), or
 - (e) any goodwill (having the meaning that it has for accounting purposes) associated with anything within paragraphs (a) to (d).
- (2) The Treasury may by order amend the definition of “intellectual property” in subsection (1).
- (3) For the purposes of this Chapter a transfer of intellectual property includes—
 - (a) a sale of the intellectual property,
 - (b) the grant of a licence or other right in respect of it, and
 - (c) the assignment of a licence or other right in respect of it.

457 Meaning of “research institution”

- (1) In this Chapter “research institution” means—
 - (a) any university or other institution that is a publicly funded institution as defined in section 41(2) of the Higher Education Act 2004, or
 - (b) any institution that carries out research activities otherwise than for profit and that is neither controlled nor wholly or mainly funded by a person who carries on activities for profit.
- (2) The Treasury may by order amend subsection (1) to include in or exclude from the definition of “research institution” a person specified in the order or persons of a description specified in the order.

458 Meaning of “involved in research”

For the purposes of this Chapter a person is involved in research in relation to any intellectual property transferred or to be transferred from one or more research institutions if—

- (a) he has been actively engaged for the research institution (or any of them) in connection with research (whether as an employee or otherwise), and
- (b) that research is relevant to anything to which the intellectual property relates.

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459 Transfer of intellectual property by controlled company

- (1) For the purposes of this Chapter where a research institution has control of a company, a transfer of intellectual property from the company is to be treated as a transfer from the research institution.
- (2) For the purposes of this Chapter where two or more research institutions together have control of a company, a transfer of intellectual property from the company is to be treated as a transfer from those research institutions.
- (3) In this section “control” means control within the meaning [^{F4}given by sections 450 and 451 of CTA 2010].

Textual Amendments

- F4** Words in s. 459(3) substituted (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), **Sch. 1 para. 389** (with Sch. 2)

460 Definitions

- (1) In this Chapter—
“interest”, in relation to shares, and
“shares”,
have the meaning indicated in section 420.
- (2) In this Chapter “market value” has the meaning indicated in section 421(1).
- (3) In this Chapter—
“the acquisition”,
“the employee”, and
“the employer”,
have the meaning indicated in section 421B(8).
- (4) In this Chapter—
“restricted interest in securities”, and
“restricted securities”,
have the meaning indicated in sections 423 and 424.]

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