

Global Rewards Update: United Kingdom – taxation of restricted shares for internationally mobile employees

June 2014

Background

As discussed in the Global Rewards Update of **April 2014**, the UK 2014 Finance Bill has proposed significant amendments to the taxation of share awards for internationally mobile employees. Subject to enactment of the Finance Bill, the new rules will apply to all share vestings and option exercises occurring on or after 6 April 2015 (irrespective of the date on which the award was granted).

The Government has now proposed an amendment to the legislation that would apply to restricted share awards (broadly shares awarded to an employee where the shares are subject to a risk of forfeiture or a restriction on sale).

UK taxation of restricted shares

Under current legislation, where restricted shares are awarded to an employee who is not resident in the UK (and assuming the award is not made in relation to/contemplation of UK duties), there will be no UK income tax charge arising in respect of the award even if the employee has become UK tax resident at the point when the shares subsequently vest.

Under the draft legislation, awards which vest after 6 April 2015 would now be subject to UK income tax at the point of vesting. The amount liable to UK income tax would generally be based on the market value of the shares at vesting, as apportioned for UK workdays over the grant to vest period.

Where the share award is subject to income tax at the time of grant in the 'home' country, the tax paid in the home location at grant could be deducted from the UK income tax payable at vesting.

Proposed change

The effect of the Government's latest proposed amendment is that where an individual is subject to income tax in the home location at grant on the full value (the "unrestricted market value") of the shares, there will be no UK income tax due at vesting. An example would be where a US employee makes a s.83(b) election (broadly equivalent to a UK s.431 election).

If the participant was not subject to overseas tax at grant, or was only subject to overseas tax on a proportion of the value of the shares at grant and subsequently comes to the UK, UK income tax would still arise at vesting.

Deloitte view

This latest amendment to the taxation of restricted stock for internationally mobile employees will be a welcome

development for companies and employees moving to the UK from countries that tax restricted shares at grant.

Without this change, the employee could have claimed a foreign tax credit in the UK at the time of vesting for any tax paid overseas at grant in relation to their award. However, even if the employee paid overseas income tax on the full value of the shares at grant, a UK tax charge could still have arisen at vesting if there had been share price growth during the vesting period.

Companies must still ensure that they are able to meet their UK withholding obligations where there is a UK tax liability at vesting. This will be relevant in relation to participants moving to the UK from countries which do not tax restricted stock at grant or tax a discounted value at grant.

People to contact

For assistance with these issues, or any other issue related to the operation of your global equity plans, please contact your usual Deloitte adviser or email us at globalshareplans@deloitte.co.uk, and an adviser will contact you.

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