

Option to acquire shares in lieu of distributions (scrip dividends)

Part 33-02-01

This document should be read in conjunction with section 816 of the Taxes Consolidation Act (TCA) 1997

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Introduction

This manual sets out the tax treatment under section 816 TCA 1997 of a person who exercises an option to acquire additional shares, stock or any other interest in a company in place of a cash distribution. These are often referred to as “scrip dividends” or “stock dividends”.

1. Income tax and corporation tax treatment

Section 816 applies where any person¹ receives additional share capital of a company as a result of exercising an option, where that option gave a choice between receiving those additional shares and a cash sum.

This could be a deliberate exercise of an option or an implied one. For example, a shareholder could be required to choose either additional shares or a cash dividend. Alternatively, a shareholder could be offered additional shares, subject to a right to choose cash instead and the person abandons or fails to exercise that right to choose cash. The shareholder is regarded as exercising an option in both cases.

The section applies regardless of whether the option was exercised before, on or after the declaration of a dividend.

“Share” is defined in section 816 as a share in the share capital of a company and includes stock and any other interest in the company.

Where a shareholder receives additional share capital in a company instead of a cash sum, as a result of exercising an option, then an amount equal to the amount of the cash dividend the shareholder would have otherwise received is treated for tax purposes in a prescribed manner.

The tax treatment depends on the residence position of the company whose shares are issued. Where the company is Irish tax resident, the tax treatment also depends on whether that company is quoted or not on a stock exchange.

1.1 Position where payor company is not Irish resident

A person who receives a scrip dividend from a company resident outside of the State is deemed to receive income from the company equal to the amount of the cash dividend forgone. This income is treated as income from securities and possessions outside the State and is assessed and charged to tax under Case III of Schedule D.

¹ A “person” can refer to an individual, body corporate or unincorporated body of persons - see section 18 of the Interpretation Act 2005.

1.2 Position where payor is an Irish resident quoted company

A person who receives a scrip dividend from an Irish resident company that is a quoted company is deemed to receive a distribution equal to the amount of the cash dividend forgone.²

The quoted company is also treated as making a distribution to the person. A deduction for corporation tax purposes will not be available for the distribution and the company must consider the dividend withholding tax (DWT) implications arising.³

A “quoted company” is defined in section 816(1). The legislation contains references to the Developing Companies Market and the Exploration Securities Market of the Irish Stock Exchange. As these market references are no longer relevant, Revenue is prepared to accept that for the purposes of section 816 a “quoted company” refers to a company whose shares, or any class of whose shares, are-

- admitted to trading on Euronext Dublin, operated by the Irish Stock Exchange, or listed in the official list of any other stock exchange, or
- admitted to trading on any other recognised stock exchange in the State, or quoted on any similar or corresponding market of any other stock exchange.

1.3 Position where payor is an unquoted Irish resident company

A scrip dividend received by a person from an Irish resident company that is not a quoted company is deemed to be profits or gains of the person. An amount equal to the cash dividend forgone is assessed and charged to tax under Case IV of Schedule D.

This amount is a “relevant distribution” for DWT purposes (section 172A TCA 1997 refers). DWT applies to all relevant distributions made by Irish resident paying companies, unless the recipient is specifically exempted under DWT legislation.

Further guidance on DWT is available in Tax and Duty Manuals [Part 06-08A-01](#) and [Part 06-08B-01](#).

² The scrip dividend treated as a distribution under section 816(2)(b) is a distribution for both income tax and corporation tax purposes more generally – see sections 4(1), 20 and 130(1) TCA 1997.

³ For DWT purposes, in circumstances where the shareholder is not exempted from DWT, the distributing company is required to issue a reduced number of shares instead of withholding a cash amount from the distribution. The company must then pay to Revenue an amount of DWT representing DWT that would have been paid on the gross cash amount which the shareholder would have received if they had not elected to take shares instead of cash [see section 172B(2) TCA 1997].

1.4 Examples

Example 1: Individual shareholder

Mrs Q is an Irish resident shareholder in three different companies. Company A is a UK resident company, Company B is an unquoted Irish resident company and Company C is Irish resident and its shares are admitted to trading on the main market of the Irish Stock Exchange. Each company grants Mrs Q an option to receive additional share capital in the respective company, in the place of a €10,000 cash dividend. Mrs Q exercises each of those options and receives additional shares.

For income tax purposes, Mrs Q is treated as receiving:

- Income of €10,000 from Company A which is assessed and charged to tax under Case III of Schedule D.
- Profits/gains of €10,000 from Company B which are assessed and charged to tax under Case IV of Schedule D.
- A distribution of €10,000 from Company C which is assessed and charged to tax under Schedule F.

Mrs Q must report these amounts in her income tax return for the period under self-assessment. She will receive a credit for DWT deducted by Companies B and C on the scrip dividends.

Example 2: Corporate shareholder

The facts are the same as in Example 1 except the shareholder is HoldCo, an Irish resident company.

For corporation tax purposes, HoldCo is treated as receiving:

- Income of €10,000 from Company A which is assessed and charged to tax under Case III of Schedule D⁴.
- Profits/gains of €10,000 from Company B which are assessed and charged to tax under Case IV of Schedule D.

⁴ Subject to the necessary conditions being satisfied, HoldCo may be entitled to claim the participation exemption under section 831B TCA 1997, or alternatively a credit under double tax relief provisions for UK tax paid, in respect of the foreign scrip dividend.

- A distribution of €10,000 from Company C which is exempt from corporation tax (as a distribution from one Irish resident company to another is exempt under section 129 TCA 1997).

These amounts must be reported by HoldCo in its corporation tax return for the period. If the appropriate exemption declarations are in place, confirming that HoldCo is a company resident in the State, then no DWT should apply to the scrip dividends from Companies B and C.

2. Capital gains tax treatment

For capital gains tax (CGT) purposes, the additional shares acquired are treated as being acquired under a rights issue. The new shareholding, being the original shares plus the additional shares, is treated as being acquired at the same time and for the same cost as the original shares (section 584(3) TCA 1997).

Where section 816 applies, the cash sum which the shareholder would have received if they had not exercised the option to receive additional shares is treated as consideration given for those shares (section 584(4)(b)). This amount is treated as enhancement expenditure and must be apportioned over the entire combined shareholding (i.e. the original shares plus the additional shares) when ascertaining the deductible cost of the shares in the context of future disposals.

Example 3: Income tax and CGT treatment

Mr B is an Irish resident individual who acquired 700 shares in Company Z in 2021 for €700. Company Z is an unquoted Irish resident company. In 2025, the company grants its shareholders the option to acquire 1 additional share in lieu of every €2 of dividend. In the same year, Mr B exercises his option to acquire 500 additional shares instead of receiving a cash dividend of €1,000.

Company Z is obliged under DWT rules to reduce the number of shares to be issued to Mr B and account for DWT of €250 to Revenue (i.e. the cash dividend of €1,000 he would have otherwise received @ 25% DWT). Mr B will receive 375 additional shares.

Mr B will be assessed and charged to income tax under Case IV of Schedule D in 2025 on deemed profits/gains of €1,000 (being the amount of the cash sum forgone).

For CGT purposes, Mr B is treated as having acquired 1,075 shares in 2021 for €700 and as having incurred enhancement expenditure of €1,000 in 2025 in respect of those shares.