

Chapter 13 – Growth Shares

This document should be read in conjunction with sections 112, 128, 128C, 128E and 897B of the Taxes Consolidation Act 1997

Document last updated August 2024



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Note: This manual is currently subject to review and may not reflect up-to-date position.

Most recent version.

13.1 General

A company may decide to operate a growth share scheme to incentivise their employees and managers. Growth shares are a special class of ordinary shares that generally have a low or nil value until a certain target or hurdle is reached by the business.

The hurdle is specified by the employer when the shares are issued and it may refer to:

- company performance,
- individual's performance, and
- leaver provisions, among others.

An award of growth shares can be beneficial for:

- employers as they can reward participants by providing a 'hope equity' for short to medium-term growth without diluting current equity.
- employees as they own shares in the company from day one, normally free of charge or for a discounted value.

Growth shares are also known as 'hurdle', 'ratchets' or 'flowering shares'.

13.2 Valuation of Growth Shares

The value of a shareholding in an unquoted company depends on many factors. For example, the value will depend on the business sector/industry, the net assets of the business, the profitability of the business and its future prospects in the marketplace. Revenue expects that in valuing the shares the company should use a valuation method which complies with relevant accounting standards. Revenue will **not** provide an opinion regarding company specific share valuations.

Employers should retain their relevant valuation records in support of their calculations.

13.3 Charge to Income Tax

Once the employer has carried out a valuation of the growth shares, these may be issued to the participant at market value, free of charge or for a discounted value.

If the participant pays the market value on award of the shares, no tax arises.

Shares issued free of charge or at a discounted value are a taxable benefit and a charge to income tax under section 112 Taxes Consolidation Act 1997 will arise. The employer should operate PAYE on this benefit in the normal manner.

Further guidance on shares acquired at less than market value is available in [Chapter 7](#) of the Share Schemes Manual.

Growth shares in exchange for professional services

If growth shares are issued free of charge or at a discount in exchange for professional services, they shall be treated as trading income in the hands of the recipient.

Interaction with other type of shares

Depending on the plan, growth shares may be treated as convertible securities.

Further guidance on the tax treatment of convertible securities is available in [Chapter 5](#) of the Share Schemes Manual.

Growth shares can also be forfeitable shares. Further guidance on the tax treatment of forfeitable shares is available in [Chapter 6](#) of the Share Schemes Manual.

Example 1 – Award at market value

An employee is granted 500 growth shares by her employer. After carrying out a valuation of the shares, it has been established that the shares have a nominal value at grant of €1 each. However, once the company achieves an annual turnover of €15m, they will be worth €15 each. The shares are not convertible or forfeitable.

The employee pays €500 at date of award, which represents the market value of the shareholding at the date of issue. There are no income tax implications for the employee.

On reaching the target, the shares will be valued at the pre-agreed €15 each and the shareholding will be valued at €7,500. No charge to tax arises on the target being achieved.

Example 2 – Award at a discount

An employee is granted 100 growth shares with a value of €10 each. The shares will be worth €20 each once the company reaches its goal of making a profit of €1m in an accounting year.

The employee pays €700 at the date of the award. As this amount is below the market value of the shares (€1,000), a taxable benefit of €300 arises. The employer must operate payroll taxes and deduct the relevant income tax, Universal Social Charge and employee's PRSI on the taxable benefit.

On reaching the goal the shareholding is worth €2,000. No charge to tax arises on the change in the value of the shareholding.

Example 3 – Award free of charge

An employee is granted 100 shares free of charge in an Irish resident company. The shares have a market value of €2 each at the date of issue and carry limited dividend rights. However, if the employee manages to increase their client portfolio by five new accounts the value of the shares will increase to €10 each.

At the date of the award, the employer will deduct income tax, USC and employee PRSI on a taxable benefit of €200 (100 shares at €2 each).

If the employee shareholder receives any dividends before the hurdle is achieved, the employer will deduct Dividend Withholding Tax (DWT) at 25% and return it to the Collector General. The employee must return details of this income in their annual income tax return. The employee will be taxed at their marginal rate of tax and will receive credit for the tax withheld by the employer.

On reaching the performance goal, the shareholding is worth €1,000. No charge to tax arises on the change in the value of the shareholding.

13.4 Charge to Capital Gains Tax

On disposing of a shareholding of growth shares, a charge to capital gains tax (CGT) may arise. This disposal must be reported to Revenue even if no tax is due.

The normal CGT rules apply to the disposal of growth shares. The base cost for CGT purposes is the initial market value of the shares at the date they are appropriated to the participant.

Example 4

In March 2022, an employee was granted 500 growth shares with a nil value. The company agrees that if it reaches specific turnover growth the shares will be worth €5 each.

The company achieved this growth in February 2024, with the 500 shares then being valued at €2,500. The employee disposes of the shares in February 2024 for the market value of €2,500.

Tax on acquisition of growth shares	
Description	Amount
Market value of shares	€0
Amount paid by participant	€0
Amount chargeable	€0

Tax on disposal of growth shares	
Description	Amount
Market value of shares	€2,500
Acquisition cost	(€0)
Chargeable Gain (ignoring annual exemption)	€2,500
CGT payable (33%)	€825

Example 5

In July 2022 an employee was granted 600 growth shares with a value of €1 per share. The employee pays the €1 per each share granted, €600 in total for the shares. The company agrees that if it reaches a specific goal the shares will be worth €15 each. The base cost for CGT is the €600 that was the market value at the date of grant.

The company reached the goal in July 2023 and the 600 shares were then worth €9,000.

The employee disposes of the shares in February 2024 for the market value of €9,000.

Tax on acquisition of growth shares	
Description	Amount
Market value of shares	€600
Amount paid by participant	€600
Amount chargeable	€0
Tax on disposal of growth shares	
Description	Amount
Market value of shares	€9,000
Market value on grant	(€600)
Chargeable Gain (ignoring annual exemption)	€8,400
CGT payable (33%)	€2,772

13.5 Return of Information

Employers must report details of share awards on the Employer's Share Awards return (Form ESA) for any year growth shares are awarded.

Details of growth shares forfeited must be reported under the relevant columns of the Forfeitable Shares section of the Form ESA in the return year when they are forfeited.

The Form ESA applies for the tax year 2020 onwards, with a filing deadline of **31 March** of the following year.

The return must be completed offline and then uploaded to Revenue Online Service (ROS). The return contains detailed instructions on how to complete and upload it to ROS. In addition, comprehensive guidance on the filing of share scheme returns can be found in [Tax and Duty Manual Share Scheme Reporting - Chapter 15](#).

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