Option to acquire shares in lieu of distributions (dividends)

Part 33-02-01

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

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Table of Contents

1. Options exercised prior to 1 June 1993 - quoted and unquoted companies.

Note: Paragraphs 1 and 2 are included for background purposes.

Income Tax

Any person who exercised an option to acquire shares in a company in lieu of a cash distribution from that company, is deemed to have received from that company, income equal to the sum he or she would have received if he or she had received the distribution in cash.

The taxpayer is assessable to Income tax under either:

- **Case IV of Schedule D -** where the company is Irish resident, or
- **Case III of Schedule D** - where the company is not Irish resident

on **an amount** equal to the net distribution and is **not entitled** to a tax credit.

Capital Gains Tax

The shares are treated as shares acquired under a **rights issue** and the amount of income chargeable to Income tax is treated as enhancement expenditure (this has always and will continue to apply to all **unquoted** scrip shares issued since 1974).

2. Options exercised between 1 June 1993 and 2 December 1997.

Income Tax

There are **no Income tax** implications on the exercise of options to acquire shares in **quoted** companies (in lieu of cash distributions) during this period.

Capital Gains Tax

The shares are treated as shares acquired under a **bonus issue.**

A quoted company for the purposes of section 816 TCA 1997 means a company whose shares, or any class of whose shares:

(a) are listed in the official list of the Irish Stock Exchange or any other stock exchange, or

(b) are dealt in on the smaller companies market, the unlisted securities market or the exploration securities market of the Irish Stock Exchange or on any similar or corresponding market of any other stock exchange.

Note: There is **no** change to the treatment of **unquoted shares** for Income tax or Capital Gains tax purposes – **paragraph 1** continues to apply.

3. Options exercised on or after 3 December 1997.

Income Tax

Income tax at the date of issue of shares in **quoted** companies is restored - section 43 of the Finance Act 1998 refers.

Capital Gains Tax

Therefore, for CGT purposes **quoted** scrip shares are again treated as shares acquired under a **rights issue**.

(Note: There is **no** change to the treatment of **unquoted shares** for Income tax or Capital Gains tax purposes – **paragraph 1** continues to apply).

4. Other Information.

The bonus issue treatment

The bonus issue treatment means that the cost referable to the original shares is now spread over the entire shareholding (original shares + bonus issue including scrip shares).

The rights issue treatment

The rights issue treatment ensures that the amount of the dividend forgone (not including the tax credit), which is brought into charge to Income tax at the time of the issue of these shares, ranks as enhancement expenditure (see specific provision in section 584 4(b) proviso TCA 1997).

When establishing the base cost of each share, this enhancement expenditure must be apportioned over the entire shareholding (original shares + bonus issue + scrip shares).

5. Identification of Shares

The FIFO Share Identification Rules continue to apply [effective from 3 December 1997].

Valuations

Computations may normally be accepted without expressing an opinion on the market value used. Exceptionally, for example, in substantial cases involving unquoted shares - valuations may be forwarded to the appropriate Revenue Office for verification.