

Chapter 7 - Shares Acquired at Less than Market Value (Undervalue), Notional Loans and Disposals for Greater than Market Value

This document should be read in conjunction with sections 112, 122, 122A and 897B of the Taxes Consolidation Act 1997

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7.1 Overview

Legislation was introduced in section 15(1) of the Finance Act 1998 to address a tax avoidance scheme whereby companies allowed directors and employees to acquire shares without having to pay the entire amount due on the allotment of the shares. The employee/director would pay a small portion of the purchase price, with the balance of the purchase price remaining outstanding. The unpaid balance, known as a “call” might never be called for.

Under the provisions of section 122A TCA 1997, the unpaid balance is treated as an interest-free “notional loan” in the hands of the employee/director. The interest-free loan is deemed to be a preferential loan for benefit-in-kind purposes and the provisions of section 122 TCA 1997 apply to it. Where the interest-free loan is written off by the company in favour of the employee/director, the amount outstanding on the loan is deemed to be a taxable emolument. For guidance relating to preferential loans - see Tax & Duty Manual [Part 05-01-01d](#) available on Revenue’s website.

Section 122A 1997 also covers a situation where shares are disposed of for a price that is greater than the market value of the shares. Where an employer pays an employee an inflated price for shares, the difference between the market value and the sale price is deemed to be an emolument.

7.2 Scope of the legislation

Section 122A applies in two situations:

- (a) where an employee/director (or a person connected with the employee/director) by reason of his or her employment/office, acquires shares at less than market value (i.e. at undervalue) in any company (i.e. the employing company or any other company), or
- (b) where an employee/director (or a person connected with the employee/director) by reason of his or her employment/office acquires shares (whether at undervalue or not) and disposes of those shares for consideration above the market value of the shares.

The reference to shares in (a) and (b) above also includes a reference to stock and securities within the meaning of section 135 TCA 1997, and it does not matter how the shares are acquired – allotment, assignment, or in any other manner.

7.3 Shares acquired at undervalue

To the extent that the undervalue is not otherwise chargeable to income tax as an emolument of the employment/office (for example, in accordance with section 112 TCA 1997 or section 128 TCA 1997), the employee/director is chargeable on the notional loan under section 122 TCA 1997.

The amount chargeable is the full undervalue on acquisition of the shares, reduced by any amount otherwise chargeable to tax under any other section (e.g. section 112 TCA 1997 or section 128 TCA 1997).

The notional loan remains outstanding until it terminates. Subsequent payments made by the employee/director in respect of the shares reduce the amount of the loan.

7.4 Termination of notional loan

The notional loan terminates on the occurrence of any of the following events:

- (a) the amount of the call outstanding is fully paid by the employee/director;
- (b) the employee/director is released from the obligation to account for the uncalled amount (balance outstanding);
- (c) the employee ceases to have a beneficial interest in the shares; or
- (d) the employee dies.

When the notional loan terminates by virtue of (a) or (d), no further charge generally arises under section 122 TCA 1997 in any period subsequent to the termination.

However, where either of the two events mentioned in (b) and (c) occur, an income tax charge will arise if there remains, at the time of the event in question, any balance of the initial amount outstanding.

7.5 Release of uncalled amount

In the case of (b) above, the employee/director will be treated as having received a perquisite (chargeable in accordance with section 112 TCA 1997) of an amount equal to the outstanding balance of the notional loan immediately before the release. The amount of the perquisite is, in effect, the initial amount outstanding on the notional loan as reduced by any further payments for the shares made following the date the shares were acquired but before the release of the outstanding balance.

7.6 Cessation of beneficial interest in shares

In the case of (c) above, if before the outstanding balance of the notional loan is reduced to nil (by a payment by the employee/director for the shares), he or she surrenders or otherwise disposes of his or her beneficial interest in the shares, the employee/director will be treated as having received a perquisite of an amount equal to the outstanding balance of the notional loan immediately before the surrender or other disposal. If only part of the shares acquired at undervalue are surrendered or sold, the amount chargeable is limited to the appropriate proportion of the outstanding balance.

7.7 Examples

The following examples demonstrate how the legislation works in practice.

Example 1

On 1 January 2021, an employee is given 10,000 shares by his employer for a purchase price of €2.50 per share. The market value of fully paid-up shares of the same class on that date is €4.25 per share. The employee is obliged to pay €1.00 per share on allotment of the shares and the company reserves the right to call up the outstanding €1.50 per share at a future date. The shares are allotted to the employee partly paid. The company calls for the outstanding balance on 1 January 2024 and the employee pays €15,000 on that date.

Income Tax Charge – 2021

An income tax charge arises under Schedule E and is computed in accordance with section 112 TCA 1997 on the acquisition of the shares. The amount chargeable is the difference between the market value of the shares and the amount payable by the employee. An income tax charge also arises in respect of the notional loan. The amounts chargeable are:

On acquisition of the shares

Market value of the shares on 1 January 2021 (€4.25 x 10,000)	€42,500
Less Purchase price for shares (€2.50 x 10,000)	<u>€25,000</u>
Amount chargeable	€17,500

On notional loan

Market value of shares acquired by employee		€42,500
Less		
Actual price paid by employee (€1.00 x 10,000)	€10,000	
Amount charged to income tax in accordance with section 112 TCA 1997	<u>€17,500</u>	<u>€27,500</u>
Notional Loan (undervalue on acquisition)		€15,000
Amount chargeable (€15,000 @ 13.5%*)		
(*specified interest rate)		€2,025
Total amount chargeable for 2022 (€17,500 + €2,025)		€19,525

Income Tax Charge – 2022

An income tax charge arises on the notional loan.

The amount chargeable is calculated as follows:

Notional Loan	€15,000
Amount chargeable (€15,000 @ 13.5%)	€2,025

Income Tax Charge – 2023

An income tax charge arises on the notional loan. The amount chargeable is calculated as follows:

Notional Loan	€15,000
Amount chargeable (€15,000 @ 13.5%)	€2,025

Example 2

On 1 January 2022, an employee is awarded 5,000 shares by his employer for a purchase price of €3.50 per share. The market value of fully paid-up shares of the same class on that date is €6.25 per share. The employee is obliged to pay €2.00 per share on allotment of the shares and the company reserves the right to call up the outstanding €1.50 per share at a future date. The shares are allotted to the employee partly paid. The employee makes a further payment of €1.00 per share on 1 January 2023. On 1 July 2023 the company released the employee from his obligation to pay the outstanding amount of €0.50 per share.

Income Tax Charge – 2022

An income tax charge arises under Schedule E, computed in accordance with section 112 TCA 1997 on the acquisition of the shares. The amount chargeable is the difference between the market value of the shares and the amount payable by the employee. An income tax charge also arises in respect of the notional loan. The amounts chargeable are:

On acquisition of the shares

Market value of the shares on 1 January 2022 (€6.25 x 5,000)	€31,250
Less Purchase price for shares (€3.50 x 5,000)	<u>€17,500</u>
Amount chargeable	€13,750

On notional loan

Market value of shares acquired by employee		€31,250
Less		
Actual price paid by employee (€2.00 x 5,000)	€10,000	
Amount charged to income tax in accordance with section 112 TCA 1997	<u>€13,750</u>	<u>€23,750</u>
Notional Loan (undervalue on acquisition)		€7,500
Amount chargeable €7,500 @ 13.5%* (*specified interest rate)		€1,012
Total amount chargeable for 2022 (€13,750 + €1,012)		€14,762

Income Tax Charge – 2023

An income tax charge arises on the notional loan under section 122 TCA 1997 for the period from 1 January 2023 to 1 July 2023. A charge also arises in respect of the release on 1 July 2023 of the then outstanding notional loan balance. The amounts chargeable are calculated as follows:

On notional loan

Notional Loan (undervalue on acquisition)	€7,500
Amount chargeable (€7,500 @ 13.5%* x 181/365)	€ 502

On release of obligation to pay outstanding amount

Notional loan initially outstanding 1 January 2022	€7,500
Less payment made on 1 January 2023 (5,000 @ €1)	<u>€5,000</u>
Outstanding balance on 1 January 2023 (5,000 @ €0.50)	€2,500
Amount chargeable on release of obligation	€2,500
Total amount chargeable in Year 2 (€2,500 + €502)	€3,002

7.8 Shares disposed of for more than market value

Where an employee/director is by reason of his or her employment/office allowed to acquire shares at market value or for less than market value and is then given the opportunity to sell those shares either back to the employer or to a third party for a consideration that exceeds the market value of the shares at the time of disposal, a charge to income tax arises under Schedule E in accordance with section 122A TCA 1997 on the difference between the disposal proceeds and the market value of the shares.

The charge also arises where the arrangement is made with any person connected with the employee/director.

Example 3

On 1 January 2022, an employee is awarded 5,000 shares by his employer for a purchase price of €3.00 per share. This price represents the market value of the shares. On 1 January 2024, the employer enters into an arrangement with the employee to buy back the shares for €5 per share. The market value of the shares at that date was €3.50 per share.

Income Tax Charge 2022

No charge as the employee pays the full market value of the shares.

Income Tax Charge 2024

Disposal Proceeds	€25,000
Market value of shares	<u>€17,500</u>
Amount chargeable	€7,500

Capital Gains Tax Charge 2024

Disposal Proceeds	€25,000
Less	
Cost of acquisition	€15,000
Amount chargeable to income tax	<u>€7,500</u>
Net chargeable gain	€2,500

7.9 Shares acquired under approved schemes

The income tax charge in respect of a notional loan or the deemed write off of a notional loan does not apply to shares acquired at undervalue by directors or employees under:

- a profit-sharing scheme approved under Schedule 11 TCA 1997 (Approved profit sharing scheme); or
- rights obtained under a savings-related share option scheme approved under Schedule 12A TCA 1997 (SAYE scheme).

However, if shares acquired under any of these schemes are disposed of for more than their market value, an income tax charge will arise on the difference between the market value and the disposal price under section 122A.

7.10 Return of Information

Employers must report details of any award of matching shares, shares free of charge, shares at undervalue or a discounted price on the Employer's Share Awards return (Form ESA). The reporting obligation arises in the year the award is granted.

The Form ESA must be filed by **31 March** following the relevant tax 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 [TDM Share Scheme Reporting - Chapter 15](#).