Chapter 14 – Cash-Settled Share Awards

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

Document last reviewed March 2025

14.1 General

Some employee benefit plans offer cash payments to employees based on the value of the shares in a company.

This type of incentive can be beneficial for the:

- Employer, as a way to promote employee retention without diluting equity or without the immediate cashflow requirements of having to pay a cash bonus.
- Employee, as they do not have to purchase actual shares; and where applicable they may choose to exercise their option at a time when it is more profitable (i.e., the market value of the shares exceeds the notional price).

The method of calculating the cash sum will vary depending on the scheme.

The payment may equal the value of the underlying shares on a particular date, or any increase in their value over a set period of time.

Examples of such awards include Stock Appreciation Rights (SARs), phantom shares and cash-settled Restricted Stock Units (RSUs).

RSUs are dealt with in Chapter 2 of the Share Schemes Manual.

14.2 Stock Appreciation Rights (SARs)

SARs are a form of employee compensation. Rather than receiving actual shares, the employee is granted an option over a notional number of shares for a notional price.

At exercise of this option the employee does not have to acquire shares or pay the exercise price. Instead, the employee receives a compensation equal to the increase in value of the nominal shares since the date the option was granted.

This compensation is often granted to the employee in cash, but it can also be granted as shares. This chapter deals only with compensations in cash only.

Example

An employee is granted an option over 30 shares valued at €3 each for a period of 5 years. The initial notional shareholding is valued at €90.

Four years later the shares have increased in value to €25 each. The notional value of the shareholding is now €750, which is an increase in value of €660. At this point the employee opts to exercise the option granted over these notional shares. The increase of €660 is paid to the employee via payroll and PAYE is operated on the payment.

14.3 Phantom Shares

Phantom shares are a way of allowing an employee to participate in the growth value of the stock of their employing company or parent company.

The employee is awarded a notional quantity of shares for a set period with a right to certain cash payments.

For instance:

- If the value of the shares increases over that period, then the employee is entitled to a bonus equivalent to the increase in value of the notional shares held. These are also known as "appreciation only" plans.
- At the end of the redemption period, the employee will receive a cash payment equal to the market value of the actual shares at the date of redemption. These are also known as "full value" plans.
- Each time a dividend is declared a similar gross amount is paid to the employee by way of a bonus.

The terms and conditions of the Phantom Share Plan may vary depending on the contractual agreement between the employer and the participant. Any benefits under this scheme are emoluments and subject to tax under Schedule E (section 112 TCA 1997).

Example

An employee is granted 40 notional shares for a period of 10 years. These shares are valued at €80 each. The shares' value increases to €200 each by the end of the 10 years. The value of the notional shareholding has increased from €3,200 to €8,000. A taxable bonus of €4,800 is paid out to the employee via payroll. The employer makes the relevant deductions under the Pay As You Earn (PAYE) system.

14.4 Charge to Income Tax

Where share-based remuneration is paid as cash amounts (as set out above) employers must deduct Income Tax, Universal Social Charge (USC) and PRSI as appropriate under the PAYE system. It should be reported by the employer under the "Share Based Remuneration" field of the relevant payroll submission to Revenue.

Sometimes an employee is entitled to cash payments equivalent to the dividends accruing to the underlying shares. These dividend equivalents are taxable emoluments of the employment and are subject to normal payroll deductions.

An exemption from employers PRSI on share-based remuneration is only applicable where shares are awarded in the employing company or a company controlling the employing company. As such, it is important to note that cash settled awards/payments, although relating to share based remuneration, are **not exempt from employers PRSI** as they do not meet the conditions for exemption.

14.5 Return of Information

You must report details of cash-settled share awards on the Employer's Share Awards return (Form ESA).

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.