TAX TREATMENT OF RESTRICTED STOCK & RSUS

UNITED KINGDOM

	EMPLOYEE	EMPLOYER
GRANT DATE	Restricted Stock (with restrictions that fall away within 5 years) is not taxed on award unless an election is made. Restricted Stock Units (RSUs): No tax consequences.	Depending on the nature of the award and completion of elections there may be withholding obligations (see below).
VESTING DATE	Restricted stock: If an election was made at award, there is no income tax on vesting. If no election has been made, the market value of the shares at the date of vesting will be taxable (If restricted stock is subject to restrictions for more than 5 years there may be income tax on both grant and vesting). RSUs: Income tax is due on the spread at vesting i.e. the difference between the market value of the shares and the price the participant should pay (if any) at the date of grant (or the amount in cash equal to market value).	Depending on the nature of the award and completion of elections there may be withholding obligations (see below).
WITHHOLDING & PAYMENT OF TAX	The method of paying income tax will depend on whether the shares are Readily Convertible Assets ("RCAs"). Shares in listed companies will always be considered RCAs. Where shares are RCAs, the employer has a withholding obligation. No withholding obligation arises for privately held companies where the shares are not considered RCAs. Income tax must then be paid by the individual through their annual return and social security is not due.	Where shares are RCAs, the employer has a monthly withholding obligation for both tax and social security. An additional tax charge may arise if the employee has not made good tax by 6 July each year. If the shares are not RCAs or are granted under a qualifying plan, there is no employer withholding requirement.
SOCIAL SECURITY	Restricted stock and RSUs which are considered to be RCAs are subject to social security and is uncapped. The employer social security may be transferred to the employee through an approved Joint Election or other contractual arrangement (Note this is subject to HMRC consultation). If the shares are not RCAs, social security is not payable.	For Restricted stock and RSUs which are considered to be RCAs, employer social security will be due and is uncapped. Please see Joint Election comments in Employee section. The employee should receive income tax relief for employer's social security paid and specialised payroll input may be required for this.

For further information and to register for future updates contact:

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Defined terms used in this summary:

Restricted Stock - Issued shares transferred to employees on the date of grant which are typically subject to restrictions on sale or forfeiture for example if performance targets are not met.

Restricted Stock Units – Awards where employees receive a right to acquire shares. Shares are only issued following vesting and attainment of performance targets, if applicable.

This summary has been prepared on the basis that employees are resident in the United Kingdom throughout the period from grant of stock awards until the shares are sold and that the employee is employed by a local employer in the United Kingdom, which is a subsidiary of an overseas parent. The potential tax consequences may vary greatly depending on your company's equity plan's design, administration, as well as many other factors.

Should you have a need for a trusted advisor in this area, please contact BDO's Global Equity team.

This information is current as of August 2016.

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TAX TREATMENT OF RESTRICTED STOCK & RSUS

UNITED KINGDOM

	EMPLOYEE	EMPLOYER
REPORTING	The grant (if taxable), vest and any gain on the sale of shares will generally be reported on the annual self assessment income tax return if the shares are not RCAs.	Employers should report the award, cancellation and vesting of restricted stock and RSUs to HMRC on an annual basis. Annual returns must be submitted online by 6th July and there are penalties for incorrect and/or late filing. If withholding has been operated year end payroll reporting is required.
SALE OF SHARES	The treatment of the sale of shares is complex. Capital gains tax may be payable on the sale of the shares. Gains made may be reduced by the employee's annual capital gains tax exemption. Capital gains tax will be payable at the employee's CGT marginal rate. It may also be possible to use spouse transfers or other reliefs/exemptions to reduce the overall tax liability. The sale of shares is reported and capital gains tax paid through the individual's annual tax return.	No employer action required.
IS A CORPORATION TAX DEDUCTION AVAILABLE?	A corporation tax deduction may be available. Provided that required conditions are met, the employing company will generally be able to claim a deduction equal to the amount of the gain made by employees. The corporation tax deduction is available irrespective of whether corporate recharge arrangements are in place.	
"QUALIFYING" PLANS AVAILABLE?	There are various qualifying share plans available which receive tax beneficial treatment. Qualifying plans can generate significant employer social security savings and can be set up as sub-plans to existing stock plans. There are also significant tax and social security savings available for employees. Qualifying plans can also ease the administrative burden as it can remove the employer's withholding and reporting obligation on exercise which removes many of the issues and risks around payroll compliance for non-qualifying plans. There are detailed requirements for qualifying plans and advice should be taken before any qualifying plan is implemented.	
INTERNATIONALLY MOBILE EMPLOYEES	The above summary has been prepared on the basis that employees are resident in the United Kingdom throughout the period from the date the restricted stock is awarded until the shares are sold. The rules for internationally mobile employees are complex and there are specific sourcing rules applicable to individuals arriving in or leaving the UK whilst holding stock options. The UK broadly sources equity income based on time spent during vesting. Trailing liabilities (and reporting obligations) may apply. It is highly recommended that advice is sought on an individual case by case basis.	
OTHER POINTS FOR CONSIDERATION	This summary is provided by BDO for informational purposes only to provide an outline of the general tax and social security position based on current tax law. There are also a number of legal and regulatory issues to consider on the implementation of any employee equity plan including, but not limited to, employee entitlement claims, exchange controls, securities restrictions, prospectus requirements and data protection regulations. We recommend that legal advice is obtained prior to the implementation of any employee equity plan.	

KEY ACTION POINTS

- ✓ Employers are responsible for the withholding of tax and social security on the employee equity awards only if shares are deemed RCAs. Companies should review their systems to ensure that they are sufficiently robust to be able to capture, process and report Restricted Stock grants and RSU vests through the payroll where required.
- ✓ There are specific rules applicable for Internationally Mobile Employees holding equity in the UK. We recommend that Companies review their systems to ensure that Internationally Mobile Employees moving in or out of the UK whilst holding equity can be identified to ensure correct compliance and identify any potential trailing liabilities.