

7. Concerning Share Awards and Share Options

(a) Share Awards

➤ What are share awards?

- ✧ An award of shares to the employee not in the form of share option may give rise to a benefit assessable as a perquisite under section 9 (1)(a) of the Inland Revenue Ordinance.

➤ How to compute share awards

- ✧ The benefit will be assessed to tax as the employee's income in the year of assessment the award was conferred. See the examples below:

Example 1

- If shares are awarded free of charge, the market price of the shares is the "benefit". If the market price was \$5, the benefit is \$5 per share and is his assessable income.

Example 2

- If the employee is allowed to buy shares at 80% of the market price, he paid \$8 for the shares, the benefit is \$2 per share and is his assessable income.

➤ How to report share awards

- ✧ The benefit from share awards should be reported as the employee's income under
 - item 11 (k) on I.R. 56B
 - item 13 (h) on I.R. 56F
 - item 11 (h) on I.R. 56G

➤ Illustrations of reporting for share awards

- ✧ For illustrations on how to calculate and report. [Click here.](#)

(b) Share Options

➤ What are “share option gains”?

- ✧ A grant of a right to acquire shares within a period of time in the future to an employee/a director will give rise to income assessable to tax under section 9 (1)(d) of the Inland Revenue Ordinance when he exercises/assigns/releases the right concerned. That income (“share option gain”) should be calculated in accordance with section 9(4) and may be a “*notional gain*”.
- ✧ The “share option gain” will be assessed to tax as the assessable income for the year of assessment in which the employee exercises, assigns or releases the option. See the example below:
 - If the employee exercises a right to buy shares at \$8 when the market price is \$10, then the gain to be included as his assessable income is \$2 per share.

➤ How to report “share option gain”

- ✧ There are two types of information for reporting. You have to report for (i) the “share option gains” realized by individual employees/directors and (ii) granting of share options.
- ✧ You should report “share option gains” realized by employees/directors and former employees/directors in the appropriate item on forms I.R. 56s of the year of assessment concerned.
- ✧ When you or any related company grant share options to employees/directors who are in your employment or have left employment, you should prepare a list to show the name of the company concerned and the number of shares etc., and attach it to your B.I.R. 56A. Furthermore, you have to furnish information in respect of share options granted to employees/directors prior to their commencement to work in Hong Kong when you file I.R. 56E for them.

➤ More on how to report information for “share option gains”

✧ Situation 1 : gain realized whilst in employment

You have to report in item 11 (j) of I.R. 56B the “share option gain” realized from the exercise/assignment/release of share options by employees/directors still in your employment.

✧ **Situation 2 : about to cease employment**

When the employee/director is about to cease employment (without leaving Hong Kong) you should report in item 13 (g) of I.R. 56F any “share option gain” realized by him from the exercise/assignment /release of share options.

✧ **Situation 3 : about to cease employment and leave Hong Kong for good**

When the employee/director is about to cease employment and leave Hong Kong you should report in item 11 (g) of I.R. 56G any “share option gain” realized by him from the exercise/assignment /release of share options.

If the employee/director has not yet exercised/assigned/released his rights to share options when he leaves Hong Kong, the employer should report such information in item 18 of I.R. 56G. The information to be furnished include

- the number of shares not yet exercised, and
- the date of grant.

✧ **Situation 4 : gain realized by former employees/directors**

- (i) after termination of employment, or
- (ii) after termination of employment and there is departure from Hong Kong,

the employer should report the “share option gain” under item 11(j) on I.R. 56B in the year of assessment when the “share option gain” is realized (in a year later than the year of termination of employment) and prepare a list, with the following particulars:-

- name of employee/director
- Hong Kong Identity Card number (or passport number)
- the sheet number of the I.R. 56B concerned.

In this situation, please pay attention to the following four points:-

- (i) You should use IR56B, not I.R. 56F/56G.
- (ii) The “share option gain” realized may be the only item of income to be reported for that year.
- (iii) You do not have to furnish I.R. 56B for any former employee/director who does not have any other income chargeable to Salaries Tax and the “share option gain” realized is equal to or less than his basic allowance (basic allowance is \$100,000 for the year of assessment 2004/05).
- (iv) This reporting may be in respect of year 2005/06 whilst the termination of employment takes place in year 2004/05.

➤ **More on how to report information for grant of share option**

✧ *How to report share options already granted to employees/directors prior to their arrival in Hong Kong*

- For employees/directors seconded/assigned to work in Hong Kong who were granted share options carrying conditions prior to their arrival in Hong Kong (and working for a period of time in Hong Kong is amongst those conditions)

you must complete item 14 of I.R. 56E for each of these employees/directors and submit a list with the following particulars:-

- number and types of shares covered by the option
- consideration, if any, paid for the grant or the option
- consideration required to exercise the option
- the period within which the option must be exercised.

✧ *How to report the granting of share options to employees/directors presently on your payroll and former employees/directors*

- For share options granted during 2004/05, you should provide a list, attached to B.I.R. 56A, with the following particulars:-
 - name of employee/director
 - Hong Kong Identity Card number (or passport number)
 - the name of corporation in respect of which the option was granted
 - the number of shares subjected to the option.

For more information relating to the tax implication of share awards, please refer to Leaflet PAM 47 (e) "[How to tax benefits related to stock awards and share options](#)". [Click here](#).

How to Compute and Report Share Awards

Examples

<u>Scenario</u>	<u>How to report</u>
<p>(a) On 1 August 2004, Mr LI was granted 2,000 shares of Company X, his employer. On that day the market price was \$20 per share. Mr LI left employment on 28 February 2005.</p>	<p>(a) Company X should report in item 13(h) of I.R. 56F “share award of \$40,000” (i.e. 2,000 shares x \$20 per share).</p>
<p>(b) Same as scenario (a), but before leaving employment Mr LI sold all the shares at unit price of \$25 on 16 February 2005.</p>	<p>(b) Company X’s obligation remains the same as for scenario (a) – i.e., report on I.R. 56F “share award of \$40,000”.</p> <p>Any gain arising from the subsequent sale of the shares (i.e., \$5 per share) by Mr. LI is not chargeable to tax. Hence, neither the employer nor the employee has to report any gain/loss from the actual sale of shares.</p>
<p>(c) On 2 October 2004, Ms WONG bought from her employer Company X, 1,000 shares of Company Y, at the price of \$2 per share. On that day the market price of Company Y’s shares was \$5 per share. Company Y is the parent company of Company X.</p> <p>Ms WONG is on her employer’s payroll as at 31 March 2005.</p>	<p>(c) Company X should report in item 11(k) of I.R. 56B for the year of assessment 2004/05 (i.e. for the year 1 April 2004 to 31 March 2005) “share award of \$3,000” [i.e. 1,000 shares x \$(5-2)].</p>