Chapter 4 – Employee Share Purchase Plans (ESPP)

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

Document last reviewed July 2023

Table of Contents

4.1 General

In addition to share option schemes many companies, particularly subsidiaries or branches of US corporations, also operate Employee Share Purchase Plans (ESPP).

An Employee Share Purchase Plan enables the employees of the company to purchase shares in the company or its parent company at a discount, through deductions from the employee's net salary or wages. The discount allowed is normally 15% of the market value of the shares on either the first or last day of the offer period, whichever is the lower. The offer period is normally six months.

Example

Shares are trading at USD 65 at the beginning of the six month offer period on the Stock Exchange and trading at USD 72 at the end of the six month offer period. The shares can be purchased USD 55.25 per share (i.e. USD 65 * 85%). The amount charged to income tax will be USD 72 less USD 55.25 per share. In this instance the amount charged to income tax is more than 15% of the market value of the shares at the date of purchase.

4.2 How does the plan operate

The plan operates as follows:

- The company makes an offer under the plan to employees.
- Generally there will be a maximum percentage of salary that can be invested in the plan.
- The employee decides how much net salary or wages they wish to contribute to the plan.
- The employee contributes the same amount each month for the six month period, which is retained by the company, usually in a non-interest bearing account.
- At the end of the six months the contributions are used to purchase shares for the employee.

4.3 Charge to Income Tax under Section 112 TCA 1997

The discount allowed by the company is chargeable to income tax under Schedule E as a perquisite or profit derived from the employment/ office (section 112 TCA 1997). The amount chargeable to income tax is the difference between the market value of the shares, when the shares are purchased on behalf of the employee and the amount paid by the employee for those shares.

4.4 Charge to Income Tax under Section 128 TCA 1997

The particulars of the individual share scheme plan will determine whether or not a charge to income tax arises under Section 112 or 128 TCA 1997.

The charge to income normally arises under section 112 TCA 1997. Where an ESPP provides an employee/ director an option to acquire a share, it will be considered an unapproved share option and within the charge to tax under Section 128 TCA 1997.

4.5 Return of Information

Employers must report details of an award of shares under an ESPP 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.

Where the ESPP is a share option scheme, details should only be reported on the RSS1 return.