

FREQUENTLY ASKED QUESTIONS WHEN COMPLETING FORM 42: THE BASICS

This help sheet answers questions about completing Form 42.

Form 42 asks about reportable events concerning Securities and Options that are obtained by reason of employment.

THE FORM

Do I have to use HMRC's format?

Yes. You don't have to download and complete the Form 42 from our web site. However, if you don't do this, whatever information you send us must include all the information that the Form 42 asks for and mirror the format of the Form 42.

We can't accept information that is incomplete or doesn't follow the correct format.

Does the form have to be signed?

Yes. Whether you use the downloaded form or your own it must be signed by the company secretary or someone acting on their behalf.

We can't accept a form that hasn't been signed.

Do I need to make a nil return?

Yes if you were sent a notice to file.

What's the filing deadline?

We must receive your completed form by the 6 July following the end of the tax year in which the reportable events happened.

COMPLETING THE FORM

Who's an employee?

Anyone who is, has, or is going to work for the company including any:

- Employee
- Director
- Non-executive director
- Office Holder
- Company Secretary
- Chair person

It doesn't matter if they are paid or not.

What if someone other than the employee receives the securities?

If someone acquires securities in relation to an employee's employment, that employee will be charged with any tax that arises. For example:

Mr A is employed by B Ltd. B Ltd intends to issue 100 shares to Mr A to reward him for his hard work during the year. Mr A asks the company to give the shares to Ms C rather than to him. Ms C's shares are employment related securities and need to be reported under Mr A's name because Mr A will be charged with any tax that arises.

Does the employer have to provide the securities?

No. If the securities are provided by someone connected with the employer they should be reported under the employee's name because he/she will be chargeable on any tax that arises.

What is a security?

Securities and securities options include:

- shares
- rights under contracts of insurance
- debentures, debenture stock, loan stock, bonds, certificates of deposit and other documents that creates or acknowledges debt,
- warrants and other documents which entitle the holder to subscribe for securities
- certificates and other documents conferring rights in respect of securities
- units in a collective investment scheme,
- options and futures, and
- rights under contracts for differences or contracts similar to contracts for difference.

What is a restricted security?

Broadly, restricted shares are those shares with conditions attached which potentially reduce their value. Such conditions might include a requirement that the shares can't be sold within a specified period, or an obligation to surrender or forfeit the shares in certain circumstances, such as if an employee leaves a company.

Find out more about these here: [ERSM30000 onwards](#)

What is a forfeitable security?

A forfeitable security is one where the individual loses their entitlement to the security in certain circumstances, for example if they have to surrender or forfeit the security if they leave their employment. A forfeitable security is a type of restricted security.

Find out more about these here: [ERSM30320 onwards](#)

What isn't a security?

- Cheques
- Cash and Current, deposit or savings account statements
- Property leases
- Rights under contracts of insurance

What's reportable?

Every employment related securities event is reportable.

The only exceptions are:

- Newly incorporated companies
- Newly incorporated companies - allotment of further shares
- Shares acquired by the company formation agent
- HMRC Approved Schemes.

Find out more about these here: [ERSM40000 onwards](#)

There are other events where reports may not be required. These are:

- Transfers of shares in the normal course of the domestic, family or personal relationships
- Flat Management Companies
- Members' clubs (formed as companies)
- Share for share exchange
- Rights issues
- Bonus issues
- Scrip dividends
- Dividend reinvestment plans (DRIPs)
- Shares acquired independently by employees.

Find out more about these here: [ERSM140070](#)

What market value should be used?

You can use the best available estimate. You don't have to get a formally agreed valuation of the securities. Find out more about valuations here: [ERSM220010 onwards](#)

Does the company have to operate PAYE and NICs?

If tax is due PAYE and NICs must be operated if the security is a Readily Convertible Asset (RCA). If the security isn't a readily convertible asset tax is collected through the employee's self-assessment.

What is a Readily Convertible Asset (RCA)?

Securities (including shares) are RCAs if:

- they can be sold or otherwise realised on a recognised investment exchange, such as the London Stock Exchange or the New York Stock Exchange;
- trading arrangements are in place in respect of the securities at the time the taxable income is provided;
- trading arrangements are likely to come into existence in accordance with arrangements or an understanding in place at the time the taxable income is provided;

- in all other cases securities are deemed to be RCAs and subject to PAYE and NICs if securities aren't shares for which the company is entitled to Corporation Tax deduction by reason of Part 12 of Corporation Act 2009.

When do securities cease to be employment related?

- When an employee dies the securities cease to be employment-related securities and nothing needs to be reported.
- Seven years after the employee left employment the securities cease to be employment-related securities and nothing needs to be reported.

NOT FOUND WHAT YOU WERE LOOKING FOR?

If you haven't found the answer to your query here, you can find out more by using the following links:

- [A guide to Completing Form 42](#)
- [Employment Related Securities Manual](#)