



Income tax: special purpose share schemes

Who is likely to be affected?

Higher and additional rate taxpayers who are shareholders of companies that offer special purpose share schemes, often called “B share schemes”.

General description of the measure

Companies use special purpose share schemes to offer shareholders the choice to receive either a dividend or to receive a similar amount through an issue of new shares that are subsequently purchased by the company or sold to a pre-arranged third party. This measure will align the tax consequences of that choice to ensure that all shareholders are taxed as if they had received a dividend.

Policy objective

This measure supports the Government’s objectives of tackling avoidance and unfair outcomes in the tax system. It will remove the tax advantage that is currently offered by special purpose shares schemes by treating as a dividend all returns to shareholders through such a scheme.

Background to the measure

This measure was announced at Autumn Statement 2014.

Detailed proposal

Operative date

This measure will have effect for receipts on or after 6 April 2015.

Current law

Individuals are charged to income tax on dividends and other distributions received from UK-resident companies under Chapter 3, Part 4 of the Income Tax, Trading and Other Income Act 2005 (ITTOIA05). The issue of shares is not normally taxable. The subsequent repurchase or sale of shares will usually be chargeable to capital gains tax which can be at lower rates than income tax.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend ITTOIA05 to include a further charge to income tax on “alternative receipts” offered by special purpose share schemes. A shareholder will have received an “alternative receipt” if:

- the company has given the shareholder the choice to receive either a dividend or something else;
- the shareholder has chosen to receive something other than a dividend; and
- that receipt would not, apart from this new legislation, have been subject to income tax

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	nil	+45	+40	+40	+40
	<p>These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.</p> <p>This measure supports the Exchequer in its commitment to protect revenue.</p>					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	<p>This measure will affect shareholders in companies offering special purpose share schemes. They are a small proportion of total shareholders and those likely to be affected will be higher rate and mostly additional rate taxpayers.</p> <p>The measure is not expected to impact on family formation, stability or breakdown.</p>					
Equalities impacts	HM Revenue & Customs (HMRC) does not hold data on the protected characteristics of those who benefit from special purpose share schemes. However, individuals that are likely to benefit will be Higher or Additional rate taxpayers so will have above average income. Therefore affected individuals are likely to be from groups which are overrepresented in higher income groups.					
Impact on business including civil society organisations	<p>This measure is expected to have a negligible impact on businesses. It will only affect those businesses who continue to offer special purpose share schemes as the measure will allow shareholders that receive an “alternative receipt” to request a statement showing the value of the receipt and the tax credit. HMRC expects few, if any, businesses will choose to offer special purpose schemes following the introduction of this measure.</p> <p>This measure is expected to have no impact on civil society organisations.</p>					
Operational impact (£m) (HMRC or other)	It is not anticipated that implementing this change will incur any additional costs for HMRC.					
Other impacts	<p><u>Small and micro business assessment</u>: this measure is not expected to affect small and micro businesses as they do not operate these schemes.</p> <p>Other impacts have been considered and none have been identified.</p>					

Monitoring and evaluation

The measure will be monitored through the monitoring of disclosures of new avoidance schemes to circumvent the measure, and through communication with taxpayers and practitioners affected by the measure.

Further advice

If you have any questions about this change, please contact Adrian Coates on 03000 586041 (email: adrian.coates@hmrc.gsi.gov.uk).