

## **ANNEX 8: Changes to Tax Treatment of Stock Options**

### Exempting from tax stock options granted for non-Singapore employment

1. Currently, if an employee exercises his stock options while he is in Singapore or holding Singapore employment, he would be taxed on the gains from the exercise of his stock options, even if the options were granted for employment elsewhere. Under the new tax treatment, stock option gains will be taxed to the extent that they are connected with Singapore employment. Gains from stock options granted in respect of overseas employment will not be taxed in Singapore, even if the stock options are exercised in Singapore. To be consistent, gains from stock options granted for Singapore employment will be taxed in Singapore no matter where the stock options are exercised.

### Taxing stock options and restricted share awards at the end of their moratoriums

2. Currently, stock option gains are taxed at the point of exercise, with the taxable gains defined as the difference between the market price at the point of exercise and the exercise price. This is because the employee receives, and is able to realise, the benefits of share ownership at the point of exercise. Where there is a moratorium on the shares, the employee can only cash in his benefit at the end of the moratorium. Such stock options will now be taxed only after the moratorium ends. The taxable gain will be the difference between market price at the end of the moratorium and the exercise price. Restricted share awards would be treated in a similar way.

### Extending the scope of existing stock option incentive schemes to include other forms of employee share ownership plans

3. Employee share ownership schemes will now qualify for concessionary tax treatment granted under the current incentive schemes, so long as there is a holding period that achieves similar effect as the vesting period requirement in our stock option incentive schemes. This will also make it easier for companies to meet the 50% participation rate requirement under the Company Stock Options (CSOP) Scheme, as recommended by the ERC Sub-Committee.

## MINISTRY OF FINANCE

### Requiring Singapore companies to collect the taxes on stock gains from employees who exercise their stock options after leaving Singapore

4. These companies will have to track their employees and collect the taxes when the employees exercise their stock options, if the employees are allowed to exercise the stock options even after leaving Singapore. This covers all employees, including ex-employees. Stock options are in fact deferred employment compensation. Thus, employers who grant stock options should be responsible for declaring the stock options gains when the gains are realised. Details will be released by IRAS in 3 months.