

IRAS CIRCULAR

ENTREPRENEURIAL EMPLOYEE STOCK OPTION SCHEME

**[Renamed as Equity Remuneration Incentive Scheme “ERIS”
(SMEs) with effect from 16th February 2008]**



**INLAND REVENUE
AUTHORITY
OF SINGAPORE**

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ENTREPRENEURIAL EMPLOYEE STOCK OPTION SCHEME

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Introduction

Currently, gains from employee stock options are assessed to tax as income in the year in which the options are exercised. Unless the employee has arranged to pay his tax by installments, including the tax on stock option gains, the tax becomes due within one month after it is assessed.

2. Last October, MOF implemented the Qualified ESOP Scheme¹, which allows employees to defer payment of tax on gains arising from stock options for up to 5 years, subject to an interest charge at prime rate. The scheme was introduced to alleviate the cash flow problems faced by some employees who do not sell their shares after exercising the options.

3. As a further incentive to encourage technopreneurship, the Minister for Finance stated in his Budget Statement for FY2000 on 25th February 2000 that a scheme that enhances the tax treatment of employee stock options for high tech start-ups would be announced by the end of May 2000.

4. On 22 May 2000, the Minister for Finance announced in Parliament the Entrepreneurial Employee Stock Option (Entrepreneurial ESOP) Scheme². Under the Entrepreneurial ESOP Scheme², an employee of a company can enjoy tax exemption of 50% of up to \$10 million of stock option gains arising over a period of 10 years, if certain criteria are met.

5. This circular provides details of the Entrepreneurial ESOP Scheme².

¹ Qualified ESOP Scheme was renamed in 2002 as Qualified Employee Equity-Based Remuneration Scheme (“Qualified EEBR Scheme”).

² Entrepreneurial ESOP Scheme and Company Stock Option Scheme were introduced in the year 2000 and 2001 respectively. Both were subsequently renamed in 2002 as Entrepreneurial Employee Equity-Based Remuneration Scheme (“Entrepreneurial EEBR Scheme”) and Company Employee Equity-Based Remuneration Scheme (“Company EEBR Scheme”) respectively. Following the 2008 Budget Statement on 15th February 2008, the Entrepreneurial EEBR Scheme and Company EEBR Scheme are renamed to Equity Remuneration Incentive Scheme ERIS (SMEs) and ERIS (All Corporations) respectively.

ENTREPRENEURIAL ESOP SCHEME
[Renamed as Equity Remuneration Incentive Scheme “ERIS” (SMEs)
with effect from 16th February 2008]

Effective Date

6. The Entrepreneurial ESOP Scheme² is available to all stock options granted on and after 1 June 2000 by a qualifying company under an Entrepreneurial Employee Stock Option Plan (renamed as ERIS (SMEs) Plan) to a qualifying employee to acquire ordinary shares of the qualifying company. Accordingly, stock options granted to an employee to acquire any redeemable or convertible shares or shares of a preferential nature are excluded.

7. The Scheme will be subject to review after 5 years. It should be noted that as stated in Budget Statement 2002, the exemption under Entrepreneurial ESOP Scheme² has been extended to shares granted under any Employee Share Ownership Plans (“ESOW”); provided that all the qualifying criteria for the Entrepreneurial ESOP Scheme² are met. Full details of the extension is available in IRAS circular on “Changes to tax treatment of employee stock options and other forms of employee share ownership plans” issued on 31 August 2002 (updated on 5 August 2008).

QUALIFYING CRITERIA

Entrepreneurial ESOP Plan
[Renamed as ERIS (SMEs) Plan]

8. An Entrepreneurial ESOP Plan is one that satisfies the vesting period requirement as prescribed by the Singapore Exchange (SGX) for companies listed on the SGX.

9 For ease of reference, the current SGX’s rules on vesting period for ESOP Plans of companies listed on the SGX are reproduced below:

- a. where the exercise price of the share is equivalent to its market value at the time of grant of option, the option given on the share may not be exercised within 1 year from the grant of the option;
- b. where the exercise price of the share is at a discount to its market value at the time of grant of option, the option given on the share may not be exercised within 2 years from the grant of the option.

10. ESOP Plans of companies not listed on the SGX must also satisfy the above vesting period requirement in order to be considered as Entrepreneurial ESOP Plans. For unlisted companies where the market value of their shares is not readily available to determine which vesting period shall apply, the net asset value of the shares would be used instead.

11. If SGX were to change the above vesting period rules subsequently, an ESOP Plan will have to comply with the amended rules from the date the change in rules takes effect in order to be considered as an Entrepreneurial ESOP Plan.

12. The market value mentioned in paragraph 9 refers to the market value of the shares at the time the option is granted. For a company listed on the SGX, the SGX rules on ESOPs provide that the market value is the average market price prevailing during the price fixing period immediately before the options are granted. The price fixing period is explicitly defined for each share option scheme in the company circular to the shareholders, which informs them of the proposed motion to approve the share option scheme. The computation of the average market price is decided by the company and is also stated in the same circular. Consequently, in the case of a SGX listed company, if the exercise price were fixed at the average market price prevailing during the price fixing period, a one-year vesting period would apply for the purposes of the Entrepreneurial ESOP Scheme². If, however, it were fixed at a discount to the average market price, the vesting period would be two years for the purposes of the Scheme.

13. Companies do not have to apply for approval from the Comptroller of Income Tax (referred hereafter as “the Comptroller”) to have their employee stock option plans considered as Entrepreneurial ESOP Plans. However, companies that wish to operate Entrepreneurial ESOP Plans have to keep sufficient documentation to show, when required by the Comptroller, that their employee stock option plans satisfy the required vesting period. In addition, they are required to comply with the administrative requirements under the Scheme as set out in paragraphs 28 to 31 of this circular.

Qualifying company

14. A qualifying company is any Singapore-incorporated company that grants stock options to its own employees and meets the following conditions at the time of the grant of options:

- a. it must carry out business activities in Singapore; and
- b. the aggregate market value of its gross assets at the time of the grant of options³ (or if this is not available, the aggregate market value of its gross assets as reflected in its audited accounts at the end of the accounting period immediately before the grant of the options), does not exceed \$100 million. Where the market value of any asset is not available, its book value as reflected in the audited accounts may be used instead.

³ For example, the company may have, at the time of grant of stock options, reached agreement on issuing a certain percentage of new shares to investors in return for their capital injection, based on an agreed value of the gross (i.e. total) assets of the company. In this case, to be a qualifying company under the Entrepreneurial ESOP Scheme, the agreed or market value of the gross assets of the company must not exceed \$100 million.

15. Where stock options are not granted by a company to an employee who is exercising employment for the company but by its parent company who is operating a Group ESOP Plan, the parent company can be considered as a qualifying company in relation to the employee of the first mentioned company for the purposes of the Scheme if the following requirements are met at the time of the grant of options:

- a. the company for whom the employee is exercising employment must satisfy the requirements of a qualifying company as set out in paragraph 14 and does not separately operate an ESOP Plan on its own; and
- b. the parent company must be incorporated in Singapore; and
- c. the parent company must carry out business activities in Singapore; and
- d. the aggregate market value of the gross assets of the parent company on a group basis at the time of the grant of options (or if this is not available, the aggregate market value of its gross assets as reflected in its consolidated audited accounts at the end of the accounting period immediately before the grant of options) does not exceed \$100 million. Where the market value of any asset is not available, its book value as reflected in the consolidated audited accounts may be used instead.

16. The audited accounts used to determine whether or not a company (or a group of companies) has met the aggregate gross asset value requirement under the Scheme must not be subject to a qualified opinion by the company's (or the parent company's) external auditor.

17. In the absence of audited accounts or where the relevant audited accounts have been subject to a qualified external auditor's opinion, a company (or a parent company) can still be a qualifying company if it can provide a certificate from its external auditor confirming the aggregate market value of gross assets of the company (or the group of companies) as at the date of grant of stock options or end of the relevant accounting period, as the case may be, to be not more than \$100 million.

18. Under the Scheme, the term "gross assets", in relation to a company or group or companies, means the total assets of the company or group of companies, including any tangible assets, intangible assets (e.g. goodwill, patents) or capitalized expenses (e.g. preliminary expenses), as reflected in the company's or the group consolidated accounts, net of any provisions made such as provision for depreciation of fixed assets, amortization of intangible assets and capitalized expense, provision for doubtful debts and diminution in value of assets.

19. The example in Annex 1 illustrates how the aggregate market value of gross assets of a company is determined for purposes of the Scheme.

Qualifying employee

20. A qualifying employee is one who is granted stock options by a company or its parent company under a Group ESOP Plan and also meets the following requirements at the time of the grant of options:

- a. he is exercising employment for the first mentioned company; and
- b. his committed working time per week with the first mentioned company must be at least 30 hours; and
- c. he does not have effective control of the first mentioned company.

21. Where an employee's committed working time with a company is less than 30 hours per week at the time of the grant of options, he can nevertheless qualify as a qualifying employee under the Scheme if at the time, his committed working time per week with that company amounts to at least 75% of his total working time per week. In such cases, the employee is required to make a declaration to the company on his total working time per week at the time of the grant of options to enable the company to determine whether the 75% test has been met. In the absence of such a declaration to the company, the employee cannot be considered as a qualifying employee under the Scheme. The examples in Annex 2 illustrate how this rule will be applied.

22. For the purposes of the Scheme:

- a. a non-executive director of a company is not regarded as an employee of the company;
- b. "committed working time", in relation to an employee, means the total time the employee is officially required to spend on the business of his employer (excluding overtime and lunch time). Basically, this includes any time he would have been officially required to spend on the business of his employer but for:
 - i. injury, ill-health or disability;
 - ii. maternity or paternity leave;
 - iii. leave entitlement;
 - iv. paid training or study leave;
 - v. not being required to work during a period of notice of termination of employment;
- c. "total working time" means the total committed working time as an employee for all employers plus, where applicable, the total time spent on remunerative work as a self-employed person;
- d. in subparagraph (c), if an employee is also a self-employed person, the "total time spent on remunerative work as a self-employed person" shall be deemed to be 10 hours per week.

23. Under the Scheme, an employee is considered as having effective control of a company if he beneficially owns, directly or indirectly, voting shares that give the right to exercise, or control the exercise of not less than 25% of voting power in the company. For most qualifying companies, the determination of whether or not an employee has effective control of the company based on this rule should not pose any problem. However, in some cases where a company is unable to determine definitively whether an employee has effective control of the company due to reasons such as the use of nominees, it can require the employee to provide a declaration on his beneficial ownership, directly or indirectly, of voting shares in the company. In such cases, if the employee does not give the requisite declaration to the company, he cannot be considered as a qualifying employee under the Scheme.

COMPUTATION OF TAXABLE ESOP GAINS UNDER THE ENTREPRENEURIAL ESOP SCHEME²

24. The Entrepreneurial ESOP Scheme² does not change the current basis of determining when ESOP gains accrue to an employee and the amount, as provided in section 10(5) of the Income Tax Act. ESOP gains accrue to an employee at the time the options are exercised. As stated in Budget Statement 2002, where there is a moratorium on shares acquired under any ESOP, ESOP gains accrue to an employee on the date the moratorium is lifted⁴. The amount of taxable ESOP gains is determined based on the difference between the market value or net asset value of the shares, as the case may be, and the exercise price. However, with the Entrepreneurial ESOP Scheme², 50% of ESOP gains of up to \$10 million accruing to an employee will, subject to paragraph 25, be exempt from income tax, over a period of 10 years commencing from the year the employee first enjoys the partial tax exemption on his ESOP gains. To illustrate, if an employee exercises his stock options in Year 1 and makes a gain of \$1 million, 50% or \$500,000 of the gain will be exempt from tax. Over the next 9 years (i.e. Years 2 to 10), he can enjoy 50% tax exemption on further ESOP gains of \$9 million.

25. Where discounted stock options (i.e. where the exercise price is lower than the market value of the underlying shares at the time of grant) are granted by a qualifying company to a qualifying employee under an Entrepreneurial ESOP Plan, the 50% tax exemption will only be applicable to the ESOP gains less the amount of the discount enjoyed. Correspondingly, the discounts are excluded from the \$10 million exempt income threshold as mentioned in paragraph 24.

26. The example in Annex 3 illustrates the application of the 50% income tax exemption under the Entrepreneurial ESOP Scheme².

⁴ The taxable gains will be determined based on the difference between the open market price of the shares on the date the moratorium is lifted and the exercise price.

DEFERMENT OF PAYMENT OF TAX ON GAINS FROM STOCK OPTIONS UNDER QUALIFIED ESOP SCHEME

27. An employee who enjoys the 50% income tax exemption on ESOP gains under the Entrepreneurial ESOP Scheme² is not precluded from applying to defer payment of his tax on the remaining 50% of ESOP gains under the Qualified ESOP Scheme¹. He may apply for deferral of tax payable on the ESOP gains for up to 5 years under the Qualified ESOP Scheme¹, subject to the terms and conditions under that Scheme being met.

ADMINISTRATIVE REQUIREMENTS

Qualifying Company

28. Companies are currently required to give to each of their employees an annual return of remuneration⁵ prepared in a prescribed format. However, if companies have made arrangement to transmit salary data electronically to the Comptroller for automatic inclusion into their employees' assessments, they are allowed to provide their employees with details of remuneration in any format other than the prescribed format. The annual return of remuneration or any other format of providing details of remuneration, as the case may be, or the salary data transmitted to the Comptroller electronically should contain the employee's full remuneration, including any stock option gains, for the year concerned.

29. With regard to the information to be provided on stock option gains, a qualifying company is required to provide details of all stock option gains, segregated into those qualifying for the 50% tax exemption under the Scheme and those that do not (including the amount of discount enjoyed by an employee on the stock options).

30. Whenever a qualifying company grants a tranche of stock options to a qualifying employee where the gain from the subsequent exercise of which can qualify for the 50% tax exemption under the Scheme, the company is required to give a written confirmation to the employee confirming that the qualifying criteria of the Scheme have been met in respect of that tranche of stock options granted (Annex 4 provides a specimen of the written confirmation, which sets out the minimum information to be incorporated). This requirement applies to every tranche of stock options granted by the qualifying company under the Entrepreneurial ESOP Plan to each of its qualifying employees. If it were subsequently found that any of the qualifying criteria under the Scheme has not been met, the 50% tax exemption will not be granted, or if previously granted, be withdrawn on the ESOP gains derived by the employee from the exercise of that tranche of stock options. The Comptroller may also impose appropriate penalties on the company for giving any incorrect information unless this is due solely to incorrect declaration made by its employee with respect to his total working time per week or the

⁵ The annual return of remuneration is to be given to employees no later than the date stated in the gazette notice to employers. This is usually on 1st March of the year following the year to which the employees' remuneration relates.

level of his beneficial share ownership in the company at the time of the grant of options (see paragraphs 21 and 23).

31. In addition, a qualifying company is required to keep sufficient documentation, including any declaration given by its qualifying employee, to show, when required by the Comptroller, that the qualifying criteria under the Entrepreneurial ESOP Scheme² have been met at the time the options were granted to the qualifying employee.

Qualifying Employee

32. As mentioned in paragraph 21, where an employee, who is granted stock options by a qualifying company that operates an Entrepreneurial ESOP Plan, works for the company for less than 30 hours per week at the time of the grant of stock options, he is required to make a declaration to the company on his total working time per week at the time to enable the company to determine whether he meets the 75% test to qualify him under the Scheme.

33. Further, as mentioned in paragraph 23, where it is not clear to the qualifying company that the employee does not have effective control of the company, he is required to make a declaration to the company on his beneficial ownership, directly or indirectly, of voting shares in the company.

34. In the absence of declaration, where required, to the qualifying company, the employee will not be considered as a qualifying employee under the Scheme. Where it were subsequently found that he has made any incorrect declaration to the qualifying company, the 50% tax exemption will not be granted or, if previously granted, be withdrawn on the relevant ESOP gains. In such cases, the Comptroller may also impose appropriate penalties on the employee.

35. In addition, a qualifying employee should keep the written confirmation mentioned in paragraph 30, and upon request, produce it to the Comptroller for verification.

ENQUIRIES

36. Taxpayers who have any queries concerning the Entrepreneurial ESOP Scheme² may call our Taxpayers' Services Division at 1800-356 8300 for clarification.

Inland Revenue Authority of Singapore

EXAMPLE TO ILLUSTRATE HOW THE AGGREGATE MARKET VALUE OF GROSS ASSETS OF A COMPANY IS DETERMINED FOR PURPOSES OF THE ENTREPRENEURIAL ESOP SCHEME²

XYZ Company Pte Ltd, a manufacturing company incorporated in Singapore, operates an ESOP Plan. Its accounting year ends on 31 December. The company grants stock options to employees under the Plan on 1 July 2000 and 1 July 2001.

In this case, the aggregate market value of the company's gross assets at the time of the grant of options is not available. Therefore, to determine whether or not the company has met the aggregate gross asset value requirement to qualify under the Scheme at the time the stock options are granted to its employees, reference should be made to total assets as shown in the company's balance sheet as at:

- a. 31 December 1999 in respect of options granted on 1 July 2000; and
- b. 31 December 2000 in respect of options granted on 1 July 2001.

The balance sheets of the company as at 31 December 1999 and 31 December 2000 are as follows:

XYZ Company Pte Ltd			
Balance Sheet as at 31.12.1999 (in \$000s)			
<u>Assets</u>		Aggregate book Value of gross assets	Aggregate market value of gross assets
Goodwill	9,000		
Less amortization	<u>500</u>	8,500 [1]	8,500
Preliminary Expenses	1,500		
Less amortization	<u>500</u>	1,000 [2]	1,000
Fixed Assets			
Land (Revalued on 31.12.97)		10,000 [3]	15,000
Market value:\$15,000(1999), [4]			
Buildings (Cost)	10,000		
Less accumulated depreciation	<u>5,000</u>	5,000 [5]	5,000
Plant & Machinery (Cost)	12,000		
Less accumulated depreciation	<u>6,000</u>	6,000 [6]	6,000
Total Fixed Assets		<u>21,000</u>	
Current Assets			
Stock in trade		10,000 [7]	10,000
Short term share investments		5,000 [8]	10,000
Market value:\$10,000 (1999) [9]			
Accounts Receivables	20,000		
Less provision for doubtful debts	<u>5,000</u>	15,000 [10]	15,000
Cash & Bank Balances		<u>10,000</u> [11]	10,000
Total Current Assets		<u>40,000</u>	
Total Assets (book value)		70,500	
		=====	
Aggregate market value of gross assets (determined based on the sum of [1]+[2]+[4]+[5]+[6]+[7]+[9]+[10]+[11]).			80,500
			=====
Financed by:			
Shareholders' funds	40,000		
Loans & Current Liabilities	<u>30,500</u>		
		70,500	
		=====	

XYZ Company Pte Ltd
Balance Sheet as at 31.12.2000 (in \$000s)

Assets		Aggregate book value of gross assets	Aggregate market value of gross assets
Goodwill	9,000		
Less amortization	<u>1,000</u>	8,000 [1]	8,000
Preliminary Expenses	1,500		
Less amortization	<u>1,000</u>	500 [2]	500
Fixed Assets			
Land (Revalued on 31.12.97)		10,000 [3]	20,000
Market value: \$20,000(2000) [4]			
Buildings (Cost)	10,000		
Less accumulated depreciation	<u>5,500</u>	4,500 [5]	4,500
Plant & Machinery (cost)	15,000		
Less accumulated depreciation	<u>7,000</u>	<u>8,000 [6]</u>	8,000
Total Fixed Assets		<u>22,500</u>	
Current Assets			
Stock in trade		15,000 [7]	15,000
Short term share investments		6,000 [8]	12,500
(Market value: \$12,500 (2000)) [9]			
Accounts Receivables	30,000		
Less provision for doubtful debts	<u>1,000</u>	29,000 [10]	29,000
Cash & Bank Balances		<u>12,000 [11]</u>	12,000
Total Current Assets		<u>62,000</u>	
Total Assets (book value)		93,000 =====	
Aggregate market value of gross assets (determined based on the sum of [1]+[2]+[4]+[5]+[6]+[7]+[9]+[10]+[11]).			109,500 =====
Financed by:			
Shareholders' funds		53,000	
Loans & Current Liabilities		<u>40,000</u> 93,000 =====	

Based on the above example, the company can be considered as a qualifying company for the stock options it grants to employees on 1 July 2000. The company has met all the criteria of a qualifying company under the scheme. The aggregate market value (book value of any asset is to be used if its market value is not available) of the company's gross assets as reflected in its audited accounts at the end of the accounting period immediately before the grant of the options (i.e. as at 31 December 1999) is \$80.5 million. Hence, it meets the criterion that the aggregate market value of gross assets of the company is not more than \$100 million.

However, the company is not a qualifying company for the stock options it grants to employees on 1 July 2001. This is because the company has not met all the criteria of a qualifying company under the scheme. The aggregate market value (book value of any asset is to be used if its market value is not available) of the company's gross assets as reflected in its audited accounts at the end of the accounting period immediately before the grant of the options (i.e. as at 31 December 2000) is \$109.5 million. Hence, it has not met the criterion that the aggregate market value of gross assets of the company is not more than \$100 million.

EXAMPLES TO ILLUSTRATE THE APPLICATION OF THE RULE OF 75% OF TOTAL WORKING TIME OF AN EMPLOYEE AT THE TIME OF GRANT OF STOCK OPTIONS

Example 1

Mr A is granted stock options by RST Company Pte Ltd, his only employer at the time, on 1 July 2000. He is not a self-employed person. He is officially required to work for the company from 8.00 am to 5.00 pm daily (inclusive of an hour lunch break) based on a 5-day-work week. Mr A may be asked to and does work overtime for the company on and off on a need basis.

Mr A's committed working time per week with RST Company Pte Ltd is as follows:

<u>Company</u>	<u>Committed working time per week (excluding overtime and lunchtime)</u>
RST Company Pte Ltd	40 hours (8 hours X 5 days)

Since Mr A's committed working time with RST Company Pte Ltd is not less than 30 hours, the 75% total working time requirement under the Scheme is not applicable in his case. As he has worked for RST Company Pte Ltd for more than 30 hours, he can qualify as a qualifying employee in respect of the stock options granted to him by the company.

Example 2

Mr B is granted stock options by OPQ Company Pte Ltd, his only employer at the time, on 1 July 2000. He is not a self-employed person. Under the arrangement with his employer, he is officially required to work from 8.00 am to 1.00 pm daily (with no lunch break) based on a 5-day-work week. Mr B may be asked to and does work overtime on and off on a need basis.

Mr B's committed working time per week with OPQ Company Pte Ltd is as follows:

<u>Company</u>	<u>Committed working time per week (excluding overtime and lunchtime)</u>
OPQ Company Pte Ltd	<u>25 hours</u> (5 hours X 5 days)
Total	<u>25 hours</u> **

**Since he only works for OPQ Company Pte Ltd at the time of the grant of options, his total working time per week is also 25 hours.

In this example, Mr B is working less than 30 hours per week (excluding lunchtime) for OPQ Company Pte Ltd i.e. his committed working time is less than 30 hours per week. However, at the time the company grants him the stock options, his committed working time per week with the company amounts to 100% (25/25) of his total working time per week. Mr B has therefore met the 75% total working time test under the Scheme at the time of the grant of options by OPQ Pte Ltd and can qualify as a qualifying employee in respect of the stock options granted to him by the company.

Example 3

Mr C is granted stock options by XYZ Company Pte Ltd on 1 July 2000. At the time, he is working for two companies, XYZ Company Pte Ltd and EFG Company Pte Ltd. Mr C is not a self-employed person. Under the arrangement with his employers, Mr C is officially required to work for them as follows:

<u>Company</u>	<u>Official working hours</u> <u>(excluding overtime and lunch time)</u>
EFG Company Pte Ltd	8.00 am to 1.00 pm from Monday to Friday (5 days)
XYZ Company Pte Ltd	3.00 pm to 7.00 pm from Monday to Saturday (6 days)

(Mr C may be required to work overtime for both companies on and off).

Mr C's committed working time per week with each company is as follows:

<u>Company</u>	<u>Committed working time per week</u>
EFG Company Pte Ltd	25 hours (5 hours X 5 days)
XYZ Company Pte Ltd	<u>24 hours</u> (4 hours X 6 days)
Total	<u>49 hours</u>

In this example, Mr C's committed working time with each of his two employers, EFG Company Pte Ltd and XYZ Company Pte Ltd, is less than 30 hours per week. His total working time per week is 49 hours. At the time XYZ Company Pte Ltd grants him the stock options, his committed working time per week with XYZ Company Pte Ltd amounts to only about 49% (i.e. 24/49) of his total working time per week. He has not met the 75% total working time test under the Scheme at the time of the grant of options by XYZ Company Pte Ltd and hence cannot be considered as a qualifying employee in respect of the stock options granted to him by the company.

Example 4

Mr D is granted stock options by UVW Company Pte Ltd on 1 July 2000. At the time, he is working for two companies, UVW Company Pte Ltd and MNL Company Pte Ltd. Mr D is not a self-employed person. Under the arrangement with his employers, Mr D is officially required to work for them as follows:

<u>Company</u>	<u>Official working hours</u> <u>(excluding overtime and lunchtime)</u>
MNL Company Pte Ltd	8.00 am to 1.00 pm on Saturday only (1 day)
UVW Company Pte Ltd	8.00 am to 1.00 pm from Monday to Friday (5 days)

(Mr D may be required to work overtime for both companies on and off).

Mr D's committed working time per week with each company is as follows:

<u>Company</u>	<u>Committed working time per week</u>
MNL Company Pte Ltd	5 hours (5 hours X 1 day)
UVW Company Pte Ltd	<u>25 hours</u> (5 hours X 5 days)
Total	<u>30 hours</u>

In this example, Mr D's committed working time with each of his two employers, MNL Company Pte Ltd and UVW Company Pte Ltd, is less than 30 hours per week. His total working time per week is 30 hours. At the time UVW Company Pte Ltd grants him the stock options, his committed working time per week with UVW Company Pte Ltd amounts to about 83% (i.e. 25/30) of his total working time per week. He has therefore met the 75% total working time test under the Scheme at the time of the grant of options by UVW Company Pte Ltd and hence can qualify as a qualifying employee in respect of the stock options granted to him by the company.

Example 5

Mr E is granted stock options by HIJ Company Pte Ltd on 1 July 2000. At the time, he is working for two companies, HIJ Company Pte Ltd and PQR Company Pte Ltd. Mr E is also concurrently running his consultancy business and food business (i.e. he is also a self-employed person). Under the arrangement with his two employers, Mr E is officially required to work for them as follows:

<u>Company</u>	<u>Official working hours (excluding overtime and lunchtime)</u>
PQR Company Pte Ltd	8.00 am to 1.00 pm on Saturday only (1 day)
HIJ Company Pte Ltd	8.00 am to 1.00 pm from Monday to Friday (5 days)

(Mr E may be required to work overtime for both companies on and off).

Mr E's committed working time per week with each company is as follows:

<u>Company</u>	<u>Committed working time per week</u>
PQR Company Pte Ltd	5 hours (5 hours X 1 day)
HIJ Company Pte Ltd	<u>25 hours</u> (5 hours X 5 days)
Total	<u>30 hours</u>

Mr E's total working time per week is computed as follows:

Total committed working time per week (as above)	30 hours
Time spent on consultancy/food business per week (deemed to be)	<u>10 hours</u>
Total	<u>40 hours</u>

In this example, Mr E's committed working time with each of his two employers, HIJ Company Pte Ltd and PQR Company Pte Ltd, is less than 30 hours per week. His total working time per week is 40 hours, including the 10 hours per week he is deemed to have spent on his consultancy/food business. At the time HIJ Company Pte Ltd grants him the stock options, his committed working time per week with HIJ Company Pte Ltd amounts to only about 63% (i.e. 25/40) of his total working time per week. He has not met the 75% total working time test under the Scheme at the time of the grant of options by HIJ Company Pte Ltd and hence cannot qualify as a qualifying employee in respect of the stock options granted to him by the company.

EXAMPLE TO ILLUSTRATE THE APPLICATION OF THE 50% INCOME TAX EXEMPTION UNDER THE ENTREPRENEURIAL ESOP SCHEME

Mr F derives the following gains in the years 2001 to 2010, which are assessable to income tax in the Years of Assessment 2002 to 2011:

	YA2002 (\$'000)	YA2003 (\$'000)	YA2004 (\$'000)	YA2005 (\$'000)	YA2006 (\$'000)
Salaries	100	100	100	100	100
Qualifying ESOP gains (under the Entrepreneurial ESOP Scheme ²)**	1,000	2,500	0	1,500	0
Other ESOP gains	500	200	1,000	0	1,500
Singapore dividends	20	50	30	10	30
Total Income	1,620	2,850	1,130	1,610	1,630

Cumulative qualifying ESOP gains under the Entrepreneurial ESOP Scheme ^{2***} from YA 2002 (first YA)	1000	3,500	3,500	5,000	5,000
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	YA2007 (\$'000)	YA2008 (\$'000)	YA2009 (\$'000)	YA2010 (\$'000)	YA2011 (\$'000)
Salaries	100	100	100	100	100
Qualifying ESOP gains (under the Entrepreneurial ESOP Scheme ²)**	2,000	0	2,000	1,500	1,000
Other ESOP gains	0	1,000	0	0	1,500
Singapore dividends	100	150	130	90	250
Total Income	2,200	1,250	2,230	1,690	2,850

Cumulative qualifying ESOP gains under the Entrepreneurial ESOP Scheme ^{2***} from YA 2002 (first YA)	7,000	7,000	9,000	10,500#	11,500#
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**This assumes that all the conditions under the Entrepreneurial ESOP Scheme² are satisfied.

Under the Entrepreneurial ESOP Scheme², Mr F can enjoy 50% tax exemption on qualifying ESOP gains up to \$10 million over 10 years. Once the \$10 million cap is reached, the excess of ESOP gains over \$10 million will be taxed in full.

The computation of the amount of total taxable income and ESOP gains that is exempt from income tax under the Entrepreneurial ESOP Scheme² is provided in the next page.

Computation of the amount of Mr F's total taxable income and the amount of ESOP gains that is exempt from income tax under the Entrepreneurial ESOP Scheme² for each of the Years of Assessment 2002 to 2011

	YA2002 (\$'000)	YA2003 (\$'000)	YA2004 (\$'000)	YA2005 (\$'000)	YA2006 (\$'000)
Salaries	100	100	100	100	100
Balance of qualifying ESOP gains (after exemption under the Entrepreneurial ESOP Scheme ²) ⁶	500	1,250	0	750	0
Other ESOP gains	500	200	1,000	0	1,500
Singapore dividends	20	50	30	10	30
Total taxable income	1,120	1,600	1,130	860	1,630

Qualifying ESOP gains exempt from income tax under the Entrepreneurial ESOP Scheme²:

Amount for the YA	500	1,250	0	750	0
Cumulative amount of qualifying ESOP gains that enjoy the 50% tax exemption starting from YA 2002 (first YA)	1,000	3,500	3,500	5,000	5,000

	YA2007 (\$'000)	YA2008 (\$'000)	YA2009 (\$'000)	YA2010 (\$'000)	YA2011 (\$'000)
Salaries	100	100	100	100	100
Balance of qualifying ESOP gains (after exemption under the Entrepreneurial ESOP Scheme ²) ⁶	1,000	0	1,000	1,000	1,000
Other ESOP gains	0	1,000	0	0	1,500
Singapore dividends	100	150	130	90	250
Total taxable income	1,200	1,250	1,230	1,190	2,850

Qualifying ESOP gains exempt from income tax under the Entrepreneurial ESOP Scheme²:

Amount for the YA	1,000	0	1,000	500⁷	0⁸
Cumulative amount of qualifying ESOP gains that enjoy the 50% tax exemption starting from YA 2002 (first YA)	7,000	7,000	9,000	10,000	10,000

⁶ Computed as follows: amount of qualifying ESOP gains less the amount determined to be exempt from tax under the Entrepreneurial ESOP Scheme².

⁷ Under the Entrepreneurial ESOP Scheme², Mr F cannot enjoy the 50% tax exemption on any ESOP gains in excess of \$10 million. In YA 2009 (the 8th year), the cumulative qualifying ESOP gains under the Scheme amounts to \$9 million. Given the cap of \$10 million, although Mr F derives qualifying ESOP gains of \$1.5 million in YA 2010 (the 9th year), the amount of qualifying ESOP gains that can qualify for the 50% tax exemption will be limited to \$1 million (i.e. \$10 million less \$9 million). The excess of \$0.5 million will therefore not enjoy the 50% tax exemption and be taxed in full.

⁸ No further tax exemption to be accorded to the taxpayer in respect of gains arising from the exercise of Entrepreneurial ESOPs as the cumulative gains arising from the Entrepreneurial ESOPs have already exceeded \$10 million.

<Employee's name & identification number>

<Employee's address>

<Date: day/month/year>

Dear <Employee's name>

QUALIFYING CRITERIA UNDER THE ENTREPRENEURIAL EMPLOYEE STOCK OPTIONS (ENTREPRENEURIAL ESOP) SCHEME

Pursuant to the Stock Option Scheme operated by <name of the company>, you have been granted on <date of grant> options to acquire <number> ordinary shares in the company at any time during <effective period of option> at the price of <exercise price> per share.

This is to confirm that on the date of the grant of the above mentioned options, the company has met the criteria to be a qualifying company and the company's Stock Option Scheme has met the conditions for an "Entrepreneurial ESOP Plan", as set out in IRAS' circular on "Entrepreneurial Employee Stock Option Scheme" dated 22 May 2000. Given that you have / have confirmed to have** met the criteria as a qualifying employee, as defined in the same IRAS' circular, on the date of the grant of options, you will be able to enjoy the 50% income tax exemption on gains derived by you from the exercise of the options. However, this is provided you have not already enjoyed the 50% income tax exemption on ESOP gains exceeding \$10 million over a period of 10 years commencing from the year the partial tax exemption is first enjoyed by you.

You should retain this letter and upon request by the Comptroller of Income Tax, produce it to him for verification.

Name, designation and signature
of Authorized Personnel of company

***Delete whichever is not applicable*

[For new tranches of ESOPs or shares under ESOW plan granted on or after 16 Feb 2008]

<Employee's name & identification number>

<Employee's address>

<Date: day/month/year>

Dear <Employee's name>

QUALIFYING CRITERIA UNDER THE EQUITY REMUNERATION INCENTIVE SCHEME - (SMEs) [ERIS (SMEs)]

Pursuant to the Employee Stock Option (ESOP)/ Employee Share Ownership (ESOW)* plan operated by <name of the company>, you have been granted on <date of grant> options/share awards* to acquire <number> ordinary shares in the company at any time during <effective period of option/award*> at the price of <exercise price/grant price*> per share.

This is to confirm that on the date of the grant of the above mentioned options/shares*, the company has met the criteria to be a qualifying company and the company's ESOP/ESOW* plan has met the conditions for an "ERIS (SMEs) plan", as set out in IRAS' circular on "Entrepreneurial Employee Stock Option Scheme (renamed as ERIS (SMEs) with effect from 16th February 2008)" dated 22 May 2000 (updated 5 August 2008). Given that you have / have confirmed to have** met the criteria as a qualifying employee, as defined in the same IRAS' circular, on the date of the grant of options/shares*, you will be able to enjoy the 50% income tax exemption on gains derived by you from the exercise of the options or grant of the share awards*. However, this is provided you have not already enjoyed the 50% income tax exemption on ESOP/ESOW gains exceeding \$10 million over a period of 10 years commencing from the year the partial tax exemption is first enjoyed by you.

You should retain this letter and upon request by the Comptroller of Income Tax, produce it to him for verification.

Name, designation and signature
of Authorized Personnel of company

***Delete whichever is not applicable*