

# **IRAS e-Tax Guide**

## **Equity Remuneration Incentive Scheme (ERIS) (Second Edition)**



INLAND REVENUE  
AUTHORITY  
OF SINGAPORE

Published by  
Inland Revenue Authority of Singapore

Published on 26 Apr 2013

First Published on 9 Jul 2012

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## Equity Remuneration Incentive Scheme (ERIS)

### 1 Aim

- 1.1 This e-Tax Guide provides details on the tax exemption of gains derived by an employee from Employee Share Options (“ESOP”) and Employee Share Ownership (“ESOW”) plans granted by his employer. It consolidates the three e-Tax Guides issued previously on ERIS<sup>1</sup>.
- 1.2 It would be relevant to individuals who are granted shares under ESOP or ESOW plans and companies which grant shares under these plans to any individual because of any office or employment held by the person.

### 2 At a glance

- 2.1 The Equity Remuneration Incentive Scheme (“ERIS”) provides certain tax exemption on gains derived from ESOP and ESOW plans. It consists of the following three sub-schemes.
  - i. Equity Remuneration Incentive Scheme (Start-Ups) [“ERIS (Start-Ups)”]
  - ii. Equity Remuneration Incentive Scheme (SMEs) [“ERIS (SMEs)”]
  - iii. Equity Remuneration Incentive Scheme (All Corporations) [“ERIS (All Corporations)”]
- 2.2 ERIS (Start-Ups) applies to employees of a new start-up company incorporated in Singapore. Employees may enjoy exemption of 75% of the ESOP/ESOW gains. This is subject to meeting other qualifying conditions.
- 2.3 ERIS (SMEs) applies to employees of a Singapore-incorporated company whose aggregated market value of gross assets does not exceed \$100 million. Employees may enjoy exemption of 50% of the ESOP/ESOW gains. This is subject to meeting other qualifying conditions.
- 2.4 ERIS (All Corporations) applies to employees of a company incorporated in Singapore, or a branch of a foreign-incorporated company registered in Singapore. Employees may enjoy full exemption on the first \$2,000 of ESOP/ESOW gains, plus exemption of 25% of the remaining gains. This is subject to meeting other qualifying conditions.

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<sup>1</sup> This e-Tax guide is a consolidation of three previous IRAS circulars on Equity Remuneration Incentive Scheme:

- a) Entrepreneurial Employee Stock Option Scheme [Renamed as Equity Remuneration Incentive Scheme “ERIS” (SMEs) with effect from 16<sup>th</sup> Feb 2008], published on 22 May 2000
- b) Company Stock Option Scheme [Renamed as Equity Remuneration Incentive Scheme “ERIS” (All Corporations) with effect from 16<sup>th</sup> Feb 2008], published on 31 Mar 2001
- c) Equity Remuneration Incentive Scheme (Start-ups), published on 1 Aug 2008

### **3 Glossary**

#### **3.1 Employee Share Options (ESOP) plans**

The plans give the rights, usually to employees, to purchase shares in the company at a future date. It includes “stock options”.

#### **3.2 Employee Share Ownership (ESOW) plans**

The plans allow an employee of a company to own or purchase shares in the company or in its parent company. They include share awards and other similar forms of employee share purchase plans. It excludes phantom shares and share appreciation rights.

#### **3.3 Qualifying Company**

Refers to a company which qualifies for ERIS.

#### **3.4 Qualifying Employee**

Refers to an employee who qualifies for ERIS.

#### **3.5 Qualifying ESOP/ESOW Plan**

Refers to an ESOP/ESOW plan which qualifies for ERIS.

#### **3.6 Qualifying Period**

Refers to the period when the grant of the stock options or shares would qualify for ERIS.

## **4 Background**

- 4.1 Generally, gains from ESOW/ESOP are assessed to tax as income in the year in which the awards/options are vested/exercised. It is assessed together with other employment income. Payment of tax on gains arising from stock options/shares can be deferred for up to 5 years<sup>2</sup>.
- 4.2 The Entrepreneurial Employee Stock Option (ESOP) Scheme was introduced in year 2000 and was later renamed as ERIS (SMEs). It provides tax incentive to employees who derive gains from ESOP granted by high tech entrepreneurial companies, in order to encourage technopreneurship.
- 4.3 Subsequently, the Government introduced Company Stock Option (CSOP) Scheme in year 2001 and later renamed it as ERIS (All Corporations). It encourages companies to extend ESOP to employees at all levels and allows tax exemption of gains derived by employees from ESOP granted by more established companies, which do not qualify for ERIS (SMEs).
- 4.4 In year 2002, the above-mentioned tax exemptions applied to ESOP were extended to shares granted under ESOW, if the qualifying criteria are met<sup>3</sup>.
- 4.5 In year 2008, ERIS (Start-Ups) was introduced to improve the attractiveness of equity-based compensation tools for new start-up companies. It provides tax incentive to employees who derive gains from ESOP or ESOW plans.
- 4.6 In year 2013, the Government announced that ERIS would be phased out as a move to rationalise the tax treatment of remuneration, regardless of form, for employees.

## **5 Equity Remuneration Incentive Scheme (ERIS)**

- 5.1 The tax incentives of the three ERIS sub-schemes are summarised below:

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<sup>2</sup> For details on the current tax treatment of gains from an ESOW or ESOP plan, or tax deferral under the Qualified Employee Equity-Based Remuneration Scheme, please refer to e-Tax Guide "[Tax Treatment of Employee Share Options and Other Forms of Employee Share Ownership Plans](#)" published on 29 Jun 2012.

<sup>3</sup> Following the extension of incentive schemes to ESOW, the Entrepreneurial ESOP Scheme was renamed as Entrepreneurial Employee Equity-Based Remuneration Scheme ("Entrepreneurial EEBR Scheme") in 2002, and later renamed again as ERIS (SMEs) in 2008. Similarly, the Company CSOP Scheme was renamed as Company Employee Equity-Based Remuneration Scheme ("Company EEBR Scheme") in 2002, and later renamed again as ERIS (All Corporations) in 2008.

<b>ERIS (Start-Ups)</b>	<ul style="list-style-type: none"> <li>• An employee can enjoy tax exemption of 75% of the gains arising from ESOP or ESOW plans. Tax exemption is available for each YA over a period of 10 years<sup>4</sup>, subject to qualifying criteria.</li> <li>• The accumulative gains on which the tax exemption applies are capped at \$10 million over the 10-year period and the gains must be derived on or before 31 Dec 2023<sup>5</sup>.</li> </ul>
<b>ERIS (SMEs)</b>	<ul style="list-style-type: none"> <li>• An employee can enjoy tax exemption of 50% of the gains arising from ESOP or ESOW plans. Tax exemption is available for each YA over a period of 10 years, subject to qualifying criteria.</li> <li>• The accumulative gains on which the tax exemption applies are capped at \$10 million over a 10-year period and the gains must be derived on or before 31 Dec 2023<sup>5</sup>.</li> </ul>
<b>ERIS (All Corporations)</b>	<ul style="list-style-type: none"> <li>• An employee can enjoy full exemption on the first \$2,000 gains, plus exemption of 25% of the remaining amount of gains from ESOP or ESOW plans. Tax exemption is available for each YA over a period of 10 years, subject to qualifying criteria.</li> <li>• The accumulative gains on which the tax exemption applies are capped at \$1 million over the 10-year period and the gains must be derived on or before 31 Dec 2023<sup>5</sup>.</li> </ul>

5.2 An employee may apply to defer the tax payable on gains (after exemption) from an ESOP or ESOW plan under ERIS for up to 5 years, subject to meeting the qualifying conditions<sup>6</sup>.

## 6 Qualifying Period

6.1 The respective ERIS sub-schemes are available to stock options or shares granted during the qualifying period.

<sup>4</sup> The 10-year period commences from the year the employee first enjoys the partial tax exemption on his ESOP or ESOW gains.

<sup>5</sup> As announced in the Budget Statement 2013, the last day for deriving gains from ESOP or ESOW plans, in order for the partial tax exemption under the three ERIS sub-schemes to apply, is 10 years from 31 Dec 2013.

<sup>6</sup> Refer to e-Tax Guide “Tax Treatment of Employee Share Options and Other Forms of Employee Share Ownership Plans” published on 29 Jun 2012 for details on tax deferment under the Qualified Employee Equity-Based Remuneration Scheme.



<b>ERIS (Start-Ups)</b>	<ul style="list-style-type: none"> <li>• Stock options or shares granted during the period from 16 Feb 2008 to 15 Feb 2013 (both dates inclusive)<sup>7</sup>.</li> <li>• The grant date must be within the first 3 years of the company's incorporation.</li> </ul>
<b>ERIS (SMEs)</b>	<ul style="list-style-type: none"> <li>• Stock options granted from 1 Jun 2000 to 31 Dec 2013<sup>8</sup> (both dates inclusive) under any ESOP plans; or</li> <li>• Shares granted from 1 Jan 2002 to 31 Dec 2013<sup>8</sup> (both dates inclusive) under any ESOW plans.</li> </ul>
<b>ERIS (All Corporations)</b>	<ul style="list-style-type: none"> <li>• Stock options granted from 1 Apr 2001 to 31 Dec 2013<sup>8</sup> (both dates inclusive) under any ESOP plans; or</li> <li>• Shares granted from 1 Jan 2002 to 31 Dec 2013<sup>8</sup> (both dates inclusive) under any ESOW plans.</li> </ul>

6.2 The tax exemption applies only to gains arising from ordinary shares acquired by an employee under any ESOP or ESOW plans. Accordingly, any redeemable or convertible shares or shares of a preferential nature acquired by an employee under any ESOP or ESOW plans are excluded.

6.3 Annex D3 gives an illustration on the qualifying period of grant and gains to be derived from stock options or shares under ERIS following the changes announced in the Budget 2013.

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<sup>7</sup> Gains derived by an employee from stock options or shares granted on or after 16 Feb 2013 will not qualify for partial tax exemption under the ERIS (Start-Ups). Where an employee derives gains in respect of stock options or shares granted from 16 Feb 2008 to 15 Feb 2013 (both dates inclusive), such gains would subject to conditions, continue to qualify for partial tax exemption under the ERIS (Start-Ups), provided that such gains are derived on or before 31 Dec 2023.

<sup>8</sup> As announced in the Budget Statement 2013, the last day of the qualifying period for granting stock options or shares under ERIS (SMEs) and ERIS (All Corporations) is on 31 Dec 2013. Hence, gains derived by an employee from stock options or shares granted on or after 1 Jan 2014 will not qualify for partial tax exemption under the ERIS (SMEs) or ERIS (All Corporations). Where an employee derives gains from stock options or shares granted during the qualifying period under the ERIS (SMEs) or ERIS (All Corporations) as the case may be, such gains may subject to conditions, continue to qualify for partial tax exemption under the ERIS (SMEs) or ERIS (All Corporations), as the case may be, provided that such gains are derived on or before 31 Dec 2023.

## 7 Qualifying Criteria

### (I) Qualifying Company

- 7.1 A qualifying company which grants shares to its employees under an ESOP/ESOW Plan operated by the company must satisfy the following conditions, at the time of grant:

	ERIS (Start-Ups)	ERIS (SMEs)	ERIS (All Corporations)
<b><u>Place of Registration</u></b> Singapore-incorporated	✓	✓	✓
<b><u>Place of Registration</u></b> Branch of a foreign-incorporated company registered in Singapore under the Companies Act			✓
<b><u>Place of Business</u></b> Performs business activities in Singapore	✓	✓	✓
<b><u>Shareholding</u></b> Less than 20 shareholders (see paragraph 7.2)	✓		
<b><u>Aggregate Market Value of Gross Assets</u></b> Not exceeding \$100 million (see paragraphs 7.3 to 7.8)	✓	✓	
<b><u>Shares of Parent Company of the Qualifying Company</u></b> Exemption applies to options/shares granted under a Group ESOP/ESOW plan operated by the parent company (see paragraph 7.9 to 7.11)		✓	✓

- 7.2 Under ERIS (Start-Ups), the company must have total share capital which is beneficially held directly by no more than 20 shareholders:
- all of whom are individuals; or
  - at least one of whom is an individual holding at least 10% of the total number of issued ordinary shares of the qualifying company.

- 7.3 Under ERIS (Start-Ups) and ERIS (SMEs), the aggregate market value of the gross assets of a qualifying company must not exceed \$100 million, at the time of the grant<sup>9</sup>.

- 7.4 Gross assets refer to the total assets of the company or group of companies net of any provisions made. Total assets include any tangible assets, intangible assets (e.g. goodwill, patents) or capitalized expenses (e.g. preliminary expenses), as reflected in the company's or

<sup>9</sup> For example, at the time of grant of stock options, the company may have 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, the agreed or market value of the gross assets of the company must not exceed \$100 million.

the group's consolidated accounts. Provisions include provision for depreciation of fixed assets, amortization of intangible assets and capitalized expense, provision for doubtful debts and diminution in value of assets.

- 7.5 If the said value is not available, the company may use 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 or shares.
- 7.6 The audited accounts used to determine whether or not a company (or a group of companies) has met the aggregate gross asset value requirement must not be subject to a qualified opinion by the company's (or the parent company's) external auditor.
- 7.7 In the absence of audited accounts or where the relevant audited accounts have been subject to a qualified external auditor's opinion, a 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 options or awards, or at the end of the relevant accounting period, to be not more than \$100 million.
- 7.8 Where the market value of any asset is not available, its book value as reflected in the audited accounts may be used instead. See Annex A for illustration.
- 7.9 ERIS (SMEs) and ERIS (All Corporations) are available if options or shares are granted to the employees of a qualifying company under a Group ESOP/ESOW Plan operated by its parent company.
- 7.10 Specifically for ERIS (SMEs), the parent company must meet the following requirements at the time of the grant:
  - a. the parent company must be incorporated in Singapore; and
  - b. the parent company must carry out business activities in Singapore; and
  - c. the aggregate market value of its gross assets on a group basis at the time of the grant of options or shares must not exceed \$100 million. If the said value 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, may be used. Where the market value of any asset is not available, its book value as reflected in the consolidated audited accounts may be used instead.
- 7.11 ERIS (Start-Ups) is not applicable if options or shares are granted under a Group ESOP/ESOW Plan operated by the parent company.

## **(II) Qualifying Employee**

- 7.12 A qualifying employee who is granted shares or options by a qualifying company under ESOP/ESOW operated by the qualifying company, or who is granted shares or options under a Group ESOP/ESOW Plan operated by the parent company of the qualifying company, must satisfy the following conditions, at the time of grant:

	ERIS (Start-Ups)	ERIS (SMEs)	ERIS (All Corporations)
• He is exercising employment for the qualifying company (see paragraph 7.13)	✓	✓	✓
• He does not have effective control of the qualifying company (see paragraph 7.14)	✓	✓	✓
• His committed working time per week with the qualifying company must be at least 30 hours. If otherwise, his committed working time per week with the qualifying company must be at least 75% of his total working time per week (see paragraphs 7.15 to 7.17)	✓	✓	

- 7.13 For ERIS (Start-Ups) and ERIS (SMEs), a non-executive director of a company is not considered as an employee of the company.

- 7.14 An employee is considered as having effective control of a company if he directly or indirectly owns voting shares that give the right to exercise, or control the exercise of not less than 25% of voting power in the company.

- 7.15 Committed working time refers to the total time the employee is officially required to spend on the business of his employer (excluding overtime and lunchtime). 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.

- 7.16 Total working time refers to the total committed working time an employee spends for all his employers and, where applicable, the total time spent on remunerative work as a self-employed person. 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.

7.17 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 ERIS. The examples in Annex B illustrate how this rule applies.

### (III) Qualifying ESOP/ESOW Plan

7.18 To qualify for the ERIS incentives, the ESOP/ESOW Plans of a qualifying company<sup>10</sup> must satisfy the vesting period requirement as prescribed by the Singapore Exchange (SGX) as follows:-

	ESOP	ESOW
<b>(a) Where the exercise price of an ESOP / price payable by an employee under the ESOW plan is equivalent to or exceeds the market value of the share at the time of grant.</b>	Employee must not exercise the ESOP within 1 year from the grant of the ESOP.	Employee must not dispose the share acquired under the ESOW plan within ½ year from the grant of the ESOW.
<b>(b) Where the exercise price of an ESOP / price payable by an employee under the ESOW plan is at a discount to the market value of the share at the time of grant.</b>	Employee must not exercise the ESOP within 2 years from the grant of the ESOP.	Employee must not dispose the share acquired under the ESOW plan within 1 year from the grant of ESOW.

7.19 If SGX were to change the above vesting period rules subsequently, ESOP/ESOW Plans will have to comply with the amended rules from the date the change in rules takes effect.

7.20 For unlisted companies where the market value of their shares is not readily available, the net asset value of the shares could be used instead<sup>11</sup> to determine the vesting period.

7.21 For a company listed on the SGX, the market value of the share is the average market price prevailing during the price fixing period immediately before the ESOPs/ESOWs are granted. The price fixing period is explicitly defined for each ESOP/ESOW scheme in the company circular to the shareholders to approve the schemes. The computation of the average market price is also decided by the company and stated in the same circular. Hence, if the exercise price were fixed at or exceed the average market price prevailing during the price fixing period, a one-year or ½-year vesting period would apply to ESOP or ESOW respectively. If it were fixed at a discount to the

<sup>10</sup> This covers a Group ESOP/ESOW Plan operated by the parent company of the qualifying company.

<sup>11</sup> However, where the market value of the shares of the company can be ascertained, such market value of shares should be used for purposes of determining which vesting period shall apply. Net asset value of the shares could be used only if the market value of the shares were not readily available, rather than because the company is an unlisted company.

average market price, the vesting period would be two years or one-year for ESOP or ESOW respectively.

- 7.22 Companies have to keep sufficient documentation that their ESOP/ESOW plans satisfy the required vesting period. They are required to produce the documents when required by the Comptroller. In addition, they are required to comply with the administrative requirements under the ERIS Incentive Scheme as set out in paragraph 10.

**(IV) 25% Requirement - only applicable to ERIS (All Corporations)**

- 7.23 Specifically for ERIS (All Corporations), besides the vesting requirement as mentioned above, the ESOP/ESOW must satisfy an additional condition. The qualifying company must offer the ESOP/ESOW to at least 25% of its employees in order for its employees to enjoy the ERIS (All Corporations) incentive. We refer this as the “25% requirement<sup>12</sup>”.

- 7.24 The 25% requirement is determined at the end of each calendar year based on the following formula:

$$\frac{\text{Total number of the qualifying company's employees offered ESOPs under any ESOP Plan or shares under any ESOW Plan during the year (N)}}{\text{Total number of the qualifying company's employees as at 31 Dec of the year (D)}}$$

- 7.25 Companies that operate more than one ESOP or ESOW plan for different groups of employees will have to ensure that each ESOP or ESOW plan must satisfy its own conditions for a qualifying ESOP or ESOW plan under the ERIS (All Corporations) scheme. Each ESOP or ESOW plan must meet the vesting period requirement and 25% requirement.

With effect from 1 Jan 2002, ESOPs/ESOWs granted under different ESOP/ESOW plans that satisfy the vesting period requirement, subject to circumstances<sup>13</sup>, can be aggregated on a company's basis as shown in the formula below:

<sup>12</sup> Following the 2008 Budget Statement, the 50% requirement was reduced to 25% and the new requirement applies only to new tranches of ESOPs or shares under ESOW plan granted on or after 16 Feb 2008.

<sup>13</sup> Where any of the ESOP Plans or ESOW Plans can meet all the qualifying conditions under both the ERIS (SMEs) and ERIS (All Corporations), the qualifying company can however opt for tax exemption under ERIS (SMEs) to apply in respect of gains from ESOP/ESOW Plans. Once the option is made,

Total number of the qualifying company's employees who are offered ESOPs under any ESOP Plan and/or shares under any ESOW Plan that satisfies the minimum vesting period requirement during the year  
(N)

Total number of the qualifying company's employees as at 31 Dec of the year (D)

7.26 Where employees of a qualifying company are granted ESOP/ESOW under Group ESOP/ESOW plans operated by its parent company, the determination of the 25% requirement shall be made with reference to the employees of the qualifying company and not the employees of the Corporate Group.

7.27 For purposes of determining the 25% requirement under ERIS (All Corporations):

- (a) In the formula, (N) shall include all employees of the qualifying company who are offered stock options during the calendar year. These employees must be exercising employment for the qualifying company at the time the stock options are offered to them.

Where 2 or more tranches of ESOP/ESOW were offered by a qualifying company to its employees in the same calendar year under the same ESOP/ESOW Plan, (N) shall include all employees who were offered the stock options in that year via the different tranches. However, in cases where an employee is offered ESOP/ESOW under the same ESOP/ESOW Plan more than once in the same calendar year, the employee shall only be accounted for in (N) once;

- (b) In the formula, (D) shall include all employees who are exercising employment for the qualifying company as at 31 Dec of the year.

A non-executive director is considered an employee (except for a part-time employee, or a short-term contract employee described in concession paragraph c(ii) below). Hence, (D) shall include non-executive director of a qualifying company as at 31 Dec of the year.

Qualifying companies can exclude all part-time employees as at 31 Dec of the year in (D). However, if qualifying company offers ESOP/ESOW under its ESOP/ESOW Plan to any of its part-time

employees, (D) shall include all part-time employees, regardless of their length of service with the company.

- (c) In determining the 25% requirement, (D) shall include employees who have only joined the qualifying company for relatively short periods or employees who are contracted to work for relatively short periods of time; notwithstanding that the ESOP/ESOW are not offered to these employees. Companies with a sizeable number of such employees may find it difficult to meet the 25% requirement. Hence, subject to paragraph (b) above, following concessions shall apply:-

- (i) Where ESOP/ESOW are not offered to any of the employees with less than one year's service with the company in any calendar year, (D) can exclude such employees of the company as at 31 Dec of the year.

The concession does NOT apply to employees with more than a year's service. Therefore, a qualifying company which does not offer ESOP/ESOW to its employees with less than two or three years of service with the company in any calendar year, (D) can only exclude employees with less than one year's service with the company for purposes of determining whether the 25% requirement is met for that year. The concession does not apply to non-executive director of the qualifying company. (D) shall include all its non-executive directors as at 31 Dec of the year, regardless of their length of service with the company.

- (ii) Where a qualifying company does not offer ESOP/ESOW to its contract employees<sup>14</sup> who are only contracted to work for the company for not more than two years (referred hereafter as "short term contract employees"), (D) can exclude such employees of the company as at 31 Dec of the year.

The concession does NOT apply to contract employees with term exceeding 2 years of service. Therefore, a qualifying company which does not offers ESOP/ESOW to any of its employees on contracts terms; regardless of the length of their contract terms, the concession allows the qualifying company to exclude only short term employees from (D) in the 25% Requirement formula.

- (d) The 25% requirement is determined only at the end of each calendar year. Once a qualifying company determines that it meets the 25% requirement as at 31 Dec of the year, all ESOP/ESOW that meet the vesting period requirement offered; whether via one or more tranches, to its employees during that

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<sup>14</sup> Where contracts of employment between a qualifying company and its employees do not state the period the employees are required to work for the company, all such employees shall not be regarded as contract employees for purposes of applying the concession. As such, they are to be included in (D) for purposes of determining whether or not the 25% requirement is met if they remain employed by the company as at 31 Dec of the year.



year would qualify for the ERIS (All Corporations) incentive. Conversely, if the qualifying company did not meet the 25% requirement as at 31 Dec of the year, all ESOP/ESOW including those that meets the 25% requirement offered to its employees during that year would not qualify for the ERIS (All Corporations) incentive.

- (e) The examples in Annex C illustrate how the 25% requirement is determined.
- (f) Companies do not have to apply for approval from the Comptroller that its ESOP/ESOW Plans meets the qualifying criteria for ERIS incentives. Companies have to keep sufficient documentation to show that their ESOP/ESOW Plans satisfy the requirements under the relevant ERIS incentive schemes. This is in addition to companies complying with the administrative requirements under the ERIS incentive schemes and such other administrative requirements as the Comptroller may from time to time impose under the schemes.

## 8 Computation of taxable gains from ESOP or ESOW under ERIS

### Step 1: Compute the gains from ESOP or ESOW

- 8.1 ERIS does not change the basis of taxing the gains or the amount of gains from ESOP or ESOW plan, as provided in section 10(6) of the ITA<sup>15</sup>.

### Step 2: Minus discount at grant

- 8.2 Share options or awards are granted at discount, if the exercise price or price payable by employee is lower than the market value of the underlying shares at the time of grant. ERIS tax exemption is only applicable to the ESOP or ESOW gains less the amount of the discounts enjoyed at grant. Correspondingly, the discounts at grant are excluded from the 10-year exemption threshold. See illustration below.

ESOP	
Date of Grant	Jan 2010
Exercise Price of ESOP	\$15
Market value of underlying shares at time of grant	\$20
Year of Exercise of ESOP	Feb 2012
Market value of the underlying shares at the time of exercise	\$30
Number of shares acquired in year 2012 pursuant to exercise of option	10,000 shares
ESOP Gains in 2012	\$150,000 [10,000 X (\$30-\$15)]
Less: Discount to market value of shares at the time of grant	\$50,000 [10,000 X (\$20-\$15)]
ESOP Gains qualify for ERIS exemption	\$100,000 [\$150,000 – \$50,000]

<sup>15</sup> Refer to e-Tax Guide “Tax Treatment of Employee Share Options and Other Forms of Employee Share Ownership Plans” published on 29 Jun 2012.

<b>ESOW</b>	
Date of Grant	Jun 2010
Price payable by employee for ESOW	NIL
Market value of underlying shares at time of grant	\$25
Year of Vesting of ESOW	July 2012
Market value of the underlying shares at the time of vesting	\$35
Number of shares acquired in year 2012 pursuant to vesting of ESOW	20,000 shares
ESOW Gains in 2012	\$700,000 [20,000 X (\$35-\$0)]
Less: Discount to market value of shares at the time of grant	\$500,000 [20,000 X (\$25-\$0)]
ESOP Gains qualify for ERIS exemption	\$200,000 [\$700,000 – \$500,000]

*Step 3: Determine the amount of exemption and taxable gain under ERIS*

**ERIS (Start-Ups)**

- Tax exemption = 75% of gains up to \$10 million gains over 10 years (grant within first 3 years of incorporation<sup>16</sup>)

Illustration

- Gain from ESOP in Year 1 = \$1 million (after discount at grant)
- Year 1 tax exemption under ERIS (Start-Ups) = \$750,000 (i.e. 75% x \$1m)
- Year 1 taxable gain from ESOP under ERIS (Start-Ups) = \$250,000 (i.e. \$1m - \$750,000)
- Over Year 2 to Year 10, the employee can enjoy 75% tax exemption on further ESOP gains of up to \$9 million. See Annex E1 for further illustration.

**ERIS (SMEs)**

- Tax exemption = 50% of gains up to \$10 million gains over 10 years

Illustration

- Gains from ESOP in Year 1 = \$1 million (after discount at grant)
- Year 1 tax exemption under ERIS (SMEs) = \$500,000 (i.e. 50% x \$1m)
- Year 1 taxable gain from ESOP under ERIS (SMEs) = \$500,000 (i.e. \$1m - \$500,000)
- Over Year 2 to Year 10, the employee can enjoy 50% tax exemption on further ESOP gains of up to \$9 million. See Annex E2 for further illustration.

<sup>16</sup> For tranches of options or shares under ESOP or ESOW plans granted by the qualifying company after its first 3 years of incorporation, the employee may enjoy the tax exemption accorded under the ERIS (SMEs) on his ESOP or ESOW gains arising from the exercise of options or vesting of shares of up to another \$10 million over another 10 years, provided the terms and conditions for ERIS (SMEs) are met.

### ERIS (All Corporations)

- Tax exemption = first \$2,000 of gains plus 25% of the remaining gains, up to \$1 million gains over 10 years

#### Illustration

- Gains from ESOP in Year 1 = \$100,000 (after discount at grant)
- Year 1 tax exemption under ERIS (All Corporations):

	Tax exemption
First \$2,000	\$ 2,000
Remaining \$98,000 (i.e. \$100,000 - \$2,000) x 25%	<u>\$24,500</u>
Total	\$26,500

- Year 1 taxable gain from ESOP under ERIS (SMEs) = \$73,500 (i.e. \$100,000 - \$26,500)

- Gains from ESOP in Year 2 = \$200,000 (after discount at grant)
- Year 2 tax exemption under ERIS (All Corporations):

	Tax exemption
First \$2,000	\$ 2,000
Remaining \$198,000 (i.e. \$200,000 - \$2,000) x 25%	<u>\$49,500</u>
Total	\$51,500

- Year 2 taxable gain from ESOP under ERIS (SMEs) = \$149,500 (i.e. \$200,000 - \$51,500)

- The amount of cumulative ESOP gains that have enjoyed tax exemption under the ERIS (All Corporations) stands at \$100,000 as at end of Year 1 and \$300,000 (i.e. \$100,000 + \$200,000) as at end of Year 2. See Annex E3 for further illustration.

- 8.3 An employee who enjoys the 50% income tax exemption on any ESOP/ESOW gains, of up to \$10 million over 10 years under the ERIS (SMEs), may concurrently enjoy the income tax exemption accorded under the ERIS (All Corporations) on his ESOP/ESOW gains of up to \$1 million over 10 years. The exemptions shall apply regardless of the ESOP/ESOW gains derived are from the same or different employers. See examples below for illustration.

#### Example 1- ESOP/ESOW gains derived from the same employer

Dick's employer granted him stock via different tranches of stock options on different dates under the company's ESOP Plan. The first tranche of stock options granted to Dick meets all the conditions of ERIS (SMEs). Hence, any gains arising from his exercise of such options can qualify for the 50% tax exemption provided under the ERIS (SMEs) Scheme. Dick can enjoy the 50% tax exemption under the ERIS (SMEs) Scheme on up to \$10 million of ESOP/ESOW gains over a period of 10 years, commencing from the year he first enjoys the tax exemption under the Scheme.

The second tranche of stock options granted to him under the company's ESOP Plan cannot meet all the conditions of the ERIS

(SMEs) Scheme but can meet all the conditions of the ERIS (All Corporations) Scheme. Therefore, any gains arising from his exercise of the stock options can qualify for the 25% tax exemption (subject to the first \$2,000 of ESOP gains being fully tax exempt) under the ERIS (All Corporations) Scheme. Dick can enjoy the said exemption under the ERIS (All Corporations) Scheme on up to \$1 million of ESOP/ESOW gains over a period of 10 years, commencing from the year he first enjoys the tax exemption under the ERIS (All Corporations) Scheme. The respective caps on ESOP/ESOW gains that qualify for tax exemption under the two Schemes shall apply separately.

#### Example 2 – ESOP/ESOW gains derived from the different employers

Harry works full time for Company D and part time for Company E. Both companies grant stock options to him. Company D's ESOP Plan meets all conditions of the ERIS (SMEs) Scheme while Company E's ESOP Plan meets all conditions of ERIS (All Corporations) Scheme. Hence, any gains arising from Harry's exercises of the stock options granted by Company D and E can qualify for the tax exemption under the respective Schemes, subject to the caps imposed under the two Schemes. The respective caps on ESOP gains that qualify for tax exemption under the two Schemes shall apply separately.

- 8.4 The respective caps on ESOP gains that qualify for income tax exemption under the two schemes shall apply separately. Please refer to the example in Annex D1 for illustration.

### **9 ESOP or ESOW plan that concurrently meet all the qualifying conditions under both the ERIS (SMEs) and ERIS (All Corporations)**

- 9.1 When a company's ESOP or ESOW plan that concurrently meet all the qualifying conditions under both ERIS (SMEs) and ERIS (All Corporations), the company can only avail itself to either one of the two Schemes. Once the company has decided which Scheme to avail to, the effects of the Scheme chosen shall apply to all tranches of stock options or awards subsequently granted under that ESOP or ESOW Plan. The company is not allowed to switch between the schemes in respect of any subsequent tranches of stock options or awards granted under the same ESOP or ESOW Plan.

- 9.2 A company which has opted for ERIS (SMEs) may switch to ERIS (All Corporations) if it:

(i) can no longer meet the qualifying conditions under the said Scheme (eg. it has grown over time that the aggregate market value of its gross assets has exceeded \$100 million); and

(ii) meets all the conditions of the ERIS(All Corporations).

- 9.3 However, if the company were to first avail itself to the ERIS(All Corporations) in respect of any stock options or awards granted under its ESOP or ESOW Plan, the stock options or awards is not allowed to switch to ERIS(SMEs) even if all the qualifying conditions under ERIS(SMEs) can be met. Accordingly, gains arising from any stock options or awards subsequently granted under the ESOP or ESOW plan that cannot meet the qualifying conditions of the ERIS (All Corporations) shall be taxed in full.
- 9.4 It is important to note that it is by no means that a particular tranche of stock options or awards granted by a company to its employees under its ESOP or ESOW Plan could concurrently qualify for tax exemption under both the ERIS (SMEs) and ERIS (All Corporations).
- 9.5 To illustrate, Company P grants a tranche of stock options to all its employees, including part-time employees, which can meet all qualifying conditions of both the ERIS (SMEs) (other than the “qualifying employee” condition for part-timers) and the ERIS (All Corporations) at the same time. Company P decided to avail itself to the ERIS (SMEs) and the qualifying employees can enjoy the tax exemption provided under the Scheme on gains arising from their exercise of the options. Non-qualifying employees (e.g. part-timers) would be liable to tax on the full amount of gains arising from their exercise of the options. They would not be entitled to the tax exemption provided under the ERIS (All Corporations). The examples in Annex D2 further illustrate the application of the above requirements.

## **10 Administrative procedure**

- 10.1 A company is not required to seek approval from Comptroller that the gains from ESOP or ESOW qualify for ERIS exemption. When asked by the Comptroller, any company that adopts ERIS is required to produce sufficient documentation<sup>17</sup> to show that the gains so qualifies. In addition, a company is required to comply with certain administrative requirements. The requirements are set out in paragraphs 10.2 and 10.4 below. The Comptroller may impose other such requirements from time to time.

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<sup>17</sup> Where a qualifying company is unable to determine definitively whether an employee has effective control of the company, the employee is required to provide a declaration on his beneficial ownership, directly or indirectly, of voting shares in the company.

Where an employee works for the company for less than 30 hours per week at the time of grant, he is required to make a declaration to the company on his total working time per week to enable to company to determine whether he is a qualifying employee for the purpose of ERIS (Start-Ups) or ERIS (SMEs).

In the absence of a declaration, where required, to the qualifying company, the employee cannot be considered as a qualifying employee under the ERIS. In addition, a qualifying employee should keep the written confirmation and upon request, produce it to the Comptroller for verification.

- 10.2 If the Comptroller subsequently found that any of the qualifying criteria have not been met, the respective tax exemption will not be granted. If tax exemption were granted previously, it would be withdrawn from the employee. The Comptroller may also impose appropriate penalties on the company, unless this is due solely to an incorrect declaration made by its employees<sup>18</sup>.
- 10.3 The Company is required to give each employee an annual return of remuneration<sup>19</sup>. The return should show details of all gains from ESOP or ESOW in a prescribed format<sup>20</sup>. The gains should be broken down into those which qualify for the ERIS exemption and those that do not. However, if a company submits salary data electronically to the Comptroller, it may provide its employees with details of the remuneration, including gains from ESOP or ESOW, in any alternative format.
- 10.4 Whenever a qualifying company grants options or shares to a qualifying employee, under any qualifying ESOP or ESOW Plan, the company is required to give a written confirmation to the employee. The confirmation should state that all the qualifying criteria have been met, in respect of those options or shares granted to him. For plans qualify for ERIS (Start-Ups) or ERIS (SMEs), the written confirmation should be given at the time of grant. For plans qualify for ERIS (All Corporations), the written confirmation should be given within 4 weeks from 31 Dec of the year of grant. Annex F1 to F3 provide specimen of such written confirmations.

## **11 Contact information**

- 11.1 If you have any enquiries or need clarification on this Guide, please call: 1800-3568300 (Individual).

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<sup>18</sup> If the employee is found to have made any incorrect declaration to the qualifying company, the Comptroller may withdraw the exemption granted earlier and impose appropriate penalties on the employee.

<sup>19</sup> The annual return of remuneration is to be given to the employees no later than the date stated in the gazette notice to employers. This is usually on 1<sup>st</sup> Mar of the year following the year to which the employee's remuneration relates.

<sup>20</sup> The prescribed format is the Form IR8A. Details on gains from ESOP/ESOW should be reported in Appendix 8B.

## 12 Updates and amendments

	<b>Date of amendment</b>	<b>Amendments made</b>
1	26 Apr 2013	(i) Inserted paragraphs 3.6, 4.6, 6.3 and Annex D3  (ii) Revised paragraphs 5.1, 6 (heading), 6.1, 7.13, Annex E1,E2,E3,F1,F2 and F3  (iii) Inserted footnote at paragraphs 5.1, 6.1 and Annex D3

**EXAMPLE ON HOW THE AGGREGATE MARKET VALUE OF GROSS ASSETS OF A COMPANY IS DETERMINED FOR PURPOSES OF ERIS (START-UPS) AND ERIS (SMES)**

XYZ Company Pte Ltd, a manufacturing company incorporated in Singapore, operates an ESOP Plan. Its accounting year ends on 31 Dec. The company grants stock options to employees under the Plan on 1 Jul 2011 and 1 Jul 2012.

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 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 Dec 2010 in respect of options granted on 1 Jul 2011; and
- b. 31 Dec 2011 in respect of options granted on 1 Jul 2012.

The balance sheets of the company as at 31 Dec 2010 and 31 Dec 2011 are as follows:

**XYZ Company Pte Ltd  
Balance Sheet as at 31.12.2010 (in \$000s)**

<u>Assets</u>		<b>Aggregate book Value of gross assets</b>	<b>Aggregate market value of gross assets</b>
Goodwill	9,000		
Less amortization	<u>500</u>	8,500	8,500 [1]
Preliminary Expenses	1,500		
Less amortization	<u>500</u>	1,000	1,000 [2]
<b>Fixed Assets</b>			
Land (Revalued on 31.12.08)		10,000 [3]	15,000 [4]
Buildings (Cost)	10,000		
Less accumulated depreciation	<u>5,000</u>	5,000	5,000 [5]
Plant & Machinery (Cost)	12,000		
Less accumulated depreciation	<u>6,000</u>	<u>6,000</u>	6,000 [6]
Total Fixed Assets		<u>21,000</u>	
<b>Current Assets</b>			
Stock in trade		10,000	10,000 [7]
Short term share investments		5,000 [8]	10,000 [9]
Accounts Receivables	20,000		
Less provision for doubtful debts	<u>5,000</u>	15,000	15,000 [10]
Cash & Bank Balances		<u>10,000</u>	10,000 [11]
Total Current Assets		<u>40,000</u>	
Total Assets (book value)		<u>70,500</u>	
<b>Aggregate market value of gross assets (determined based on the sum of [1]+[2]+[4]+[5]+[6]+[7]+[9]+[10]+[11]).</b>			<b><u>80,500</u></b>
Financed by:			
Shareholders' funds		40,000	
Loans & Current Liabilities		<u>30,500</u>	
		<u>70,500</u>	



**XYZ Company Pte Ltd**  
**Balance Sheet as at 31.12.2011 (in \$000s)**

<b>Assets</b>		<b>Aggregate book value of gross assets</b>	<b>Aggregate market value of gross assets</b>
Goodwill	9,000		
Less amortization	<u>1,000</u>	8,000	8,000 [1]
Preliminary Expenses	1,500		
Less amortization	<u>1,000</u>	500	500 [2]
<b>Fixed Assets</b>			
Land (Revalued on 31.12.08)		10,000 [3]	20,000 [4]
Buildings (Cost)	10,000		
Less accumulated depreciation	<u>5,500</u>	4,500	4,500 [5]
Plant & Machinery (cost)	15,000		
Less accumulated depreciation	<u>7,000</u>	<u>8,000</u>	8,000 [6]
Total Fixed Assets		<u>22,500</u>	
<b>Current Assets</b>			
Stock in trade		15,000	15,000 [7]
Short term share investments		6,000 [8]	12,500 [9]
Accounts Receivables	30,000		
Less provision for doubtful debts	<u>1,000</u>	29,000	29,000 [10]
Cash & Bank Balances		<u>12,000</u>	12,000 [11]
Total Current Assets		<u>62,000</u>	
Total Assets (book value)		<u>93,000</u>	
<b>Aggregate market value of gross assets (determined based on the sum of [1]+[2]+[4]+[5]+[6]+[7]+[9]+[10]+[11]).</b>			<b><u>109,500</u></b>
Financed by:			
Shareholders' funds		53,000	
Loans & Current Liabilities		<u>40,000</u>	
		<u>93,000</u>	

Based on the above example, the company can be considered as a qualifying company for the stock options it grants to employees on 1 Jul 2011. 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 Dec 2010) 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 Jul 2012. 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 Dec 2011) 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 ON THE APPLICATION OF THE RULE OF 75% OF TOTAL WORKING TIME OF AN EMPLOYEE AT THE TIME OF GRANT OF ESOP / ESOW

### Example 1

Mr A is granted stock options by RST Company Pte Ltd, his only employer at the time, on 1 Jul 2010. 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 Jul 2010. 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 Jul 2010. 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 Jul 2010. 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 (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 Jul 2010. 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</u> <u>(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 ON THE APPLICATION OF THE 25% REQUIREMENT UNDER THE ERIS (ALL CORPORATIONS)

Prince Company Pte Ltd, incorporated in Singapore, is a subsidiary of US-listed King Inc. King Inc operates an ESOP Plan that offers option to acquire shares in the company to its own employees as well as employees of companies within the King's Corporate Group (referred to as "King's Group ESOP Plan") if certain criteria are met. Under the King's Group ESOP Plan, Prince Company Pte Ltd may also offer its employees the options to acquire shares in King Inc if they meet certain criteria. The King's Group ESOP Plan imposes a vesting period requirement similar to that imposed by the SGX rules.

### Year 2010

During the year 2010, Prince Company Pte Ltd offers the option to acquire shares under the "King's Group ESOP Plan" to some of its employees in 3 different tranches, based on their respective contributions to the company and other considerations, as follows:

	Tranche A	Tranche B	Tranche C	Total
Offered on	2.2.10	19.6.10	19.12.10	As at 31.12.10
<u>Categories of employees</u>	<u>Number of employees offered options</u>			
Full time employees with 1 year or more service and non-executive directors	50	46	1,000*	1,096
Full time employees with less than 1-year service	-	-	-	-
Part-time employees with 1 year or more service	2	-	3	5
Part-time employees with less than 1-year service	-	-	-	-
	52	46	1,003	1,101

\* Includes Mr Tom and Mr Jerry who were offered stock options under 2 separate tranches within the same calendar year.

As at 31 Dec 2010, the King's Corporate Group has 300,000 employees worldwide. The subsidiary in Singapore, Prince Company Pte Ltd has 2,000 employees comprising:

<u>Prince Company Pte Ltd</u>	<u>Number of employees as at 31 Dec 2010</u>
Full time employees with 1 year or more service and non-executive directors	1,515
Full time employees with less than 1-year service	156
Part time employees with 1 year or more service	200
Part time employees with less than 1-year service	<u>129</u>
Total	<u>2,000</u>

Applying the formula, all 3 tranches (i.e. Tranches A, B and C) of stock options offered by Prince Company Pte Ltd to its employees under the “King’s Group ESOP Plan” in the year 2010 can qualify to be stock options granted under ERIS (All Corporations) because the Group ESOP Plan meets the SGX’s vesting period requirement and the options were offered to at least 25% of Prince Company Pte Ltd’s employees.

Total No. of qualifying company’s employees offered options under the ESOP Plan during the year  
Total No. of qualifying company’s employees as at 31 Dec 2010

$$= [52 + 46 + (1,003 - 2^{21})] / (1,515 + 200 + 129)^{22} \times 100\% = \underline{59.6\%}$$

## **Year 2011**

During the year 2011, Prince Company Pte Ltd again offers the option to acquire shares under the “King’s Group ESOP Plan” to some of its employees in 2 separate tranches. Some of these employees had previously been granted options under the same Plan in the year 2010 but no employees were offered options under both tranches for the year 2011:

<sup>21</sup> As Mr Tom and Mr Jerry were offered stock options under 2 separate tranches within the same calendar year, they should only be accounted for once in determining whether or not the 25% requirement is met.

<sup>22</sup> Full Time employees with less than 1 year’s service with the company are excluded from the denominator as the company did not offer any stock options to such employees in the year 2010.

Offered on	Tranche D	Tranche E	Total
	1.4.11	13.12.11	As at 31.12.11
<u>Categories of employee</u>	<u>Number of employees offered options</u>		
Full time employees with 1 year or more service and non-executive directors	55	146	201
Full time employees with less than 1-year service	-	3	3
Part-time employees with 1 year of more service	-	3	3
Part-time employees with less than 1-year service	-	1	1
	55	153	208

As at 31 Dec 2011, the King's Corporate Group has 350,000 employees worldwide. The subsidiary in Singapore, Prince Company Pte Ltd has 2,200 employees comprising:

	<u>Number of employees as at 31 Dec 2011</u>
Full time employees with more than 1-year service and non-executive directors	1,580
Full time employees with less than 1-year service	250
Part time employees with more than 1-year service	220
Part time employees with less than 1-year service	<u>150</u>
Total	<u>2,200</u>

Applying the formula, the 2 tranches (i.e. Tranches D and E) of stock options offered under the "King's Group ESOP Plan" in the year 2011 cannot qualify to be stock options granted under ERIS because the options were not offered to at least 25% of Prince Company Pte Ltd's employees.

Total No. of qualifying company's employees offered options under the ESOP Plan during the year  
Total No. of qualifying company's employees as at 31 Dec 2011  
= (55 + 153) / (1,580 + 250 + 220 + 150)<sup>23</sup> = 9.5%

<sup>23</sup> Part-time employees, including those with less than 1 year's service with the company, are included in the denominator, as the company had offered stock options to such employees in the year 2011.



**EXAMPLE ON THE APPLICATION OF INCOME TAX EXEMPTION FOR EMPLOYEES WHO CONCURRENTLY DERIVE GAINS UNDER BOTH THE ERIS (SMES) AND ERIS (ALL CORPORATIONS)**

Mr C, employed by NOP Company Ltd, is granted the following stock options to acquire shares in NOP Company Ltd in the years 2008 and 2009 respectively. The details of stock options granted are summarized in the table below.

	<b>First tranche</b>	<b>Second tranche</b>
<b>Date of Grant</b>	Jun 2008	Jun 2009
<b>Whether ESOP Gains Qualify For Tax Exemption ?</b>	Yes, under the ERIS(SMEs) (because all qualifying conditions for the Scheme were met at the time of grant of option)	Yes, under the ERIS (All Corporations) (company cannot meet the qualifying company requirement under the ERIS(SMEs) but can meet all the requirements under the ERIS(All Corporations)
<b>Exercise Price of Option</b>	\$15	\$25
<b>Market value of underlying shares at time of grant of option</b>	\$20	\$25
<b>Year of Exercise of Option</b>	2011 (Jul 2011)	2011 (Jul 2011)
<b>Market value of the underlying shares at the time of exercise</b>	\$30	\$30
<b>Number of shares acquired in year 2011 pursuant to exercise of option</b>	10,000 shares	5,000 shares
<b>ESOP Gains in 2011</b>	\$150,000 [10,000 X (\$30-\$15)]	\$25,000 [5,000 X (\$30-\$25)]
<b>ESOP Gains in 2011 attributable to discount<sup>24</sup> to market value of shares at the time of grant</b>	\$50,000 [10,000 X (\$20-\$15)]	Not applicable

Mr C can concurrently enjoy the income tax exemption on ESOP gains under the ERIS (SMEs) and ERIS (All Corporations) for the respective tranches of stock options. In computing the amount of ESOP gains to be exempt from tax under the two Schemes, the respective caps on ESOP gains that qualify for income tax exemption under the two schemes shall apply separately.

<sup>24</sup> Any discount (i.e. the difference between the market value of the underlying shares as at the time of grant and the exercise price) does not qualify for the income tax exemption under both the ERIS (All Corporation) and ERIS (SMEs) and would therefore be taxed in full (i.e. the discount should be excluded from ESOP gains for purposes of the computation of the amount of ESOP gains that can qualify for income tax exemption).

**Computation of the amount of taxable ESOP gains for Mr C for the Year of Assessment 2012**

	Qualifying gains under ERIS(SMEs)	Qualifying gains under ERIS(All Corporations)	Total
Amount of ESOP gains derived in 2011 (YA2012) [1]	\$150,000 (computed as shown in table above)	\$25,000 (computed as shown in table above)	\$175,000
Less amount of ESOP gains to be exempt from tax under respective Schemes [2]	\$50,000 [(Qualifying gains less discount) X 50%] (\$150,000 - \$50,000) X 50%	\$7,750 [\$2,000 + (\$25,000 - \$2000) X 25%]	\$57,750
Taxable ESOP gains [1] – [2]	\$100,000	\$17,250	\$117,250
Cumulative ESOP gains that have enjoyed tax exemption under respective Schemes as at end of YA 2012 (first YA)	\$100,000	\$25,000	
Further ESOP gains that can qualify for tax exemption under respective Schemes over the next 9 years	\$9,900,000	\$975,000	

**EXAMPLES ON THE APPLICATION OF THE REQUIREMENTS TO BE COMPLIED WITH WHERE A PLAN QUALIFIES CONCURRENTLY FOR BOTH THE ERIS(SMES) AND ERIS(ALL CORPORATIONS)**

**Example 1**

Jack Company Ltd has implemented an ESOW Plan for its employees on 1 Jul 2010.

The company has decided to grant the following tranches of stock awards to its employees under the ESOP Plan:

- Tranche A on 1 Aug 2010
- Tranche B on 31 Dec 2010
- Tranche C on 31 Dec 2011
- Tranche D on 1 Jul 2012

The first three tranches (Tranche A to C) of stock awards granted by Jack Company Ltd to its employees under its ESOW Plan can concurrently meet the qualifying conditions of both the ERIS (SMEs) and ERIS (All Corporations).

Tranche D stock awards granted by the company to its employees under its ESOW Plan however cannot meet the qualifying company condition under the ERIS (SMEs) (because the aggregate market value of its gross assets has exceeded \$100 million on the date of the grant of Tranche D stock award) but can meet the qualifying conditions of the ERIS (All Corporations).

Jack Company Ltd has decided to avail itself to the ERIS (SMEs) in respect of Tranche A stock awards granted to its employees on 1 Aug 2010 under its ESOW Plan. Such being the case, the effects of the ERIS (SMEs) shall apply to all tranches of stock awards subsequently granted under the ESOW Plan, if the qualifying conditions of the ERIS (SMEs) continue to be met. Accordingly, in Jack Company Ltd's case, the ERIS (SMEs) would apply to Tranche B and Tranche C stock awards granted to its employees under its ESOW Plan. Jack Company Ltd would not be allowed to avail itself to the ERIS (All Corporations) in respect of Tranche B and Tranche C stock awards granted to its employees under its ESOW Plan. The company is however allowed to avail itself to the ERIS (All Corporations) in respect of Tranche D stock awards granted to its employees under its ESOW Plan as it cannot meet the qualifying company condition of the ERIS (SMEs) but is able to meet all the conditions of the ERIS (All Corporations) in respect of such tranche of stock awards.

## Example 2

Jill Company Ltd has implemented an ESOP Plan for its employees on 1 Jul 2009. The company has decided to grant the following tranches of stock options to its employees under the ESOP Plan:

- Tranche E on 1 Aug 2009
- Tranche F on 31 Dec 2009
- Tranche G on 31 Dec 2010
- Tranche H on 1 Jul 2011
- Tranche I on 31 Dec 2011

The first three tranches (Tranche E to G) of stock options granted by Jill Company Ltd to its employees under its ESOP Plan can concurrently meet the qualifying conditions of both the ERIS (SMEs) and ERIS (All Corporations).

Tranche H stock options granted by the company to its employees under its ESOP Plan however cannot meet the qualifying company condition under the ERIS (SMEs) (because the aggregate market value of its gross assets has exceeded \$100 million on the date of the grant of Tranche H stock options) but can meet the qualifying conditions of the ERIS (All Corporations).

Tranche I stock options granted by the company to its employees under the ESOP Plan cannot meet the 25% requirement to qualify the ESOP Plan under the ERIS (All Corporations) but can meet the qualifying conditions of the ERIS (SMEs) (because the aggregate market value of its gross assets has fallen below \$100 million on the date of the grant of Tranche I stock options).

For some reasons, Jill Company Ltd has decided to avail itself to the ERIS (All Corporations) in respect of Tranche E stock options granted to its employees on 1 Aug 2009 under its ESOP Plan, even though such stock options can come within the ERIS (SMEs). Such being the case, the effects of the ERIS (All Corporations) shall apply to all tranches of stock options subsequently granted under the ESOP Plan, if the qualifying conditions of the ERIS (All Corporations) continue to be met. Further, in such a case, Jill Company Ltd will not be allowed to come within the ERIS (SMEs) in respect of any tranche of stock options granted to its employees under its ESOP Plan subsequent to Tranche E stock options, even if the qualifying conditions under the ERIS (SMEs) are met. Accordingly, ESOP gains arising from any stock options granted by Jill Company Ltd subsequent to Tranche E stock options that cannot meet the qualifying conditions of the ERIS (All Corporations) shall be taxed in full.

Based on the above, in Jill Company Ltd's case, the ERIS(All Corporations) would apply to all tranches of stock options granted by the company subsequent to Tranche E stock options to its employees under its ESOP Plan i.e. Tranche F, Tranche G and Tranche H stock options. Jill Company Ltd will also not be allowed to avail itself to the ERIS (SMEs) in respect of any tranche of stock options granted to its employees under its ESOP Plan subsequent to Tranche E stock options. As the qualifying conditions of the ERIS(All Corporations) cannot be met for Tranche I stock options granted by the company to its employees under its ESOP Plan, gains derived by its employees arising from the exercise of Tranche I stock options shall be liable to tax in full.

## ANNEX D3

### EXAMPLE TO ILLUSTRATE ON THE QUALIFYING PERIOD OF GRANT AND GAINS TO BE DERIVED FROM STOCK OPTIONS OR SHARES UNDER ERIS

Company X implemented an Employee Share Options (ESOP) Plan for its employees on 1 Jul 2012. The stock options are granted in four tranches and all the four tranches meet the qualifying conditions (except the qualifying period condition) of both the ERIS (Start-Ups) and ERIS (SMEs) concurrently.

The table below shows whether the ERIS (Start-Ups) or ERIS (SMEs) is applicable to each tranche of stock options granted in view of Budget 2013 changes:

Tranche	Date each Tranche of stock options are granted	ERIS sub-scheme that applies to each Tranche <sup>25</sup>	Remarks
A	1 Aug 2012	ERIS (Start-Ups)	
B	31 Dec 2012	ERIS (Start-Ups)	Section 13M(5)(a) of the ITA applies. ERIS (Start-Ups) will apply to Tranche B so long as the qualifying conditions of the ERIS (Start-Ups) are met.
C	31 Dec 2013	ERIS (SMEs)	As Tranche C is granted after 15 Feb 2013, ERIS (Start-Ups) will cease to apply. If all the conditions under the ERIS (SMEs) are met and since the stock options are granted on or before 31 Dec 2013, Company X will qualify for ERIS (SMEs) under Section 13M(5)(b).
D	31 Dec 2014	NA	Company X will not qualify for ERIS (SMEs) as the stock options are granted after 31 Dec 2013.

<sup>25</sup> Notwithstanding that an ERIS sub-scheme applies to a tranche of stock options, for the partial tax exemption under the relevant ERIS sub-scheme to apply to an employee's gains from stock options in that tranche, such gains must be derived on or before 31 Dec 2023.

## EXAMPLE ON THE APPLICATION OF THE 75% INCOME TAX EXEMPTION UNDER ERIS (START-UPS)

Mr E derives the following gains in the years 2009 to 2018, which are assessable to income tax in the Years of Assessment 2010 to 2019:

	Before ERIS	After ERIS	Before ERIS	After ERIS	Before ERIS	After ERIS	Before ERIS	After ERIS	Before ERIS	After ERIS
YA2010 (\$'000)	YA2010 (\$'000)	YA2011 (\$'000)	YA2011 (\$'000)	YA2012 (\$'000)	YA2012 (\$'000)	YA2013 (\$'000)	YA2013 (\$'000)	YA2014 (\$'000)	YA2014 (\$'000)	
Salaries	100	100	100	100	100	100	100	100	100	
Qualifying ESOP gains [ESOPs qualify for ERIS(Start-Ups) granted within the qualifying period]	1,000	-	2,500	-	0	-	1,500	-	0	
<b>Balance of qualifying ESOP gains [after 50% exemption under ERIS(Start-Ups)]</b>	-	<b>250</b> (i.e. <b>1,000- 1,000 x75%</b> )	-	<b>625</b> (i.e. <b>2,500- 2,500 x75%</b> )	-	<b>0</b>		<b>375</b> (i.e. <b>1,500- 1,500 x75%</b> )		<b>0</b>
Other ESOP gains**	500	<b>500</b>	200	<b>200</b>	1,000	<b>1,000</b>	0	<b>0</b>	1,500	<b>1,500</b>
Total Taxable Income	1,600	<b>850</b>	2,800	<b>925</b>	1,100	<b>1,100</b>	1,600	<b>475</b>	1,600	<b>1,600</b>
<i>*Cumulative qualifying ESOP gains under ERIS (Start-Ups) from YA 2010 (first YA)</i>		1,000		3,500		3,500		5,000		5,000
YA2015 (\$'000)	YA2015 (\$'000)	YA2016 (\$'000)	YA2016 (\$'000)	YA2017 (\$'000)	YA2017 (\$'000)	YA2018 (\$'000)	YA2018 (\$'000)	YA2019 (\$'000)	YA2019 (\$'000)	
Salaries	100	100	100	100	100	100	100	100	100	
Qualifying ESOP gains [ESOPs qualify for ERIS(Start-Ups) granted within the qualifying period]	2,000	-	0	-	2,000	-	1,500	1,000	-	
<b>Balance of qualifying ESOP gains [after 50% exemption under ERIS(Start-Ups)]</b>	-	<b>500</b> (i.e. <b>2,000- 2,000 x75%</b> )	-	<b>0</b>		<b>500</b> (i.e. <b>2,000- 2,000 x75%</b> )	-	<b>750<sup>26</sup></b>	-	<b>1,000<sup>27</sup></b>
Other ESOP gains**	0	<b>0</b>	1,000	<b>1,000</b>	0	<b>0</b>	0	1,500	<b>1,500</b>	
Total Taxable Income	2,100	<b>1,100</b>	1,100	<b>1,100</b>	2,100	<b>600</b>	1,600	<b>850</b>	2,600	<b>2,600</b>
<i>*Cumulative qualifying ESOP gains under ERIS (Start-Ups) from YA 2010 (first YA)</i>		7,000		7,000		9,000		10,000		10,000

\*\*These ESOP gains do not qualify for ERIS Scheme

<sup>26</sup> Under ERIS (SMEs), Mr E can enjoy 75% 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. In YA 2017 (the 8<sup>th</sup> year), the cumulative qualifying ESOP gains under the Scheme amounts to \$9 million. Given the cap of \$10 million, although Mr E derives qualifying ESOP gains of \$1.5 million in YA 2018 (the 9<sup>th</sup> year), the amount of qualifying ESOP gains that can qualify for the 75% 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 75% tax exemption and be taxed in full.

<sup>27</sup> No further tax exemption to be accorded to the taxpayer in respect of gains arising from the exercise of options as the cumulative gains arising from the ERIS (Start-Ups) have already exceeded \$10 million.

## ANNEX E2

### EXAMPLE ON THE APPLICATION OF THE 50% INCOME TAX EXEMPTION UNDER ERIS (SMEs)

Mr F derives the following gains in the years 2009 to 2018, which are assessable to income tax in the Years of Assessment 2010 to 2019:

	Before ERIS	After ERIS	Before ERIS	After ERIS	Before ERIS	After ERIS	Before ERIS	After ERIS	Before ERIS	After ERIS
	YA2010	YA2010	YA2011	YA2011	YA2012	YA2012	YA2013	YA2013	YA2014	YA2014
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Salaries	100	100	100	100	100	100	100	100	100	100
Qualifying ESOP gains [ESOPs qualify for ERIS(SMEs) granted within the qualifying period]	1,000	-	2,500	-	0	-	1,500	-	0	-
<b>Balance of qualifying ESOP gains [after 50% exemption under ERIS(SMEs)]</b>	-	<b>500</b> (i.e. <b>1,000</b> <b>x50%</b> )	-	<b>1,250</b> (i.e. <b>2,500</b> <b>x50%</b> )	-	<b>0</b>		<b>750</b> (i.e. <b>1,500</b> <b>x50%</b> )		<b>0</b>
Other ESOP gains**	500	500	200	200	1,000	1,000	0	0	1,500	1,500
<b>Total Taxable Income</b>	<b>1,600</b>	<b>1,100</b>	<b>2,800</b>	<b>1,550</b>	<b>1,100</b>	<b>1,100</b>	<b>1,600</b>	<b>850</b>	<b>1,600</b>	<b>1,600</b>
<i>*Cumulative qualifying ESOP gains under ERIS (SMEs) from YA 2010 (first YA)</i>		1,000		3,500		3,500		5,000		5,000
	YA2015	YA2015	YA2016	YA2016	YA2017	YA2017	YA2018	YA2018	YA2019	YA2019
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Salaries	100	100	100	100	100	100	100	100	100	100
Qualifying ESOP gains [ESOPs qualify for ERIS(SMEs) granted within the qualifying period]	2,000	-	0	-	2,000	-	1,500	-	1,000	-
<b>Balance of qualifying ESOP gains [after 50% exemption under ERIS(SMEs)]</b>	-	<b>1000</b> (i.e. <b>2,000</b> <b>x50%</b> )	-	<b>0</b>		<b>1,000</b> (i.e. <b>2,000</b> <b>x50%</b> )	-	<b>1,000<sup>28</sup></b>	-	<b>1,000<sup>29</sup></b>
Other ESOP gains**	0	0	1,000	1,000	0	0	0	0	1,500	1,500
<b>Total Taxable Income</b>	<b>2,100</b>	<b>1,100</b>	<b>1,100</b>	<b>1,100</b>	<b>2,100</b>	<b>1,100</b>	<b>1,600</b>	<b>1,100</b>	<b>2,600</b>	<b>2,600</b>
<i>*Cumulative qualifying ESOP gains under ERIS (SMEs) from YA 2010 (first YA)</i>		7,000		7,000		9,000		10,000		10,000

\*\*These ESOP gains do not qualify for ERIS Scheme

<sup>28</sup> Under ERIS (SMEs), 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. In YA 2017 (the 8<sup>th</sup> 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 2018 (the 9<sup>th</sup> 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.

<sup>29</sup> No further tax exemption to be accorded to the taxpayer in respect of gains arising from the exercise of options as the cumulative gains arising from the ERIS (SMEs) have already exceeded \$10 million.

## EXAMPLE ON THE APPLICATION OF INCOME TAX EXEMPTION UNDER ERIS (ALL CORPORATIONS)

Mr Z derives the following income or gains in the years 2009 to 2018, which are assessable to income tax in the Years of Assessments 2010 to 2019:

	Before ERIS	After ERIS	Before ERIS	After ERIS	Before ERIS	After ERIS	Before ERIS	After ERIS	Before ERIS	After ERIS
	YA2010 (\$'000)	YA2010 (\$'000)	YA2011 (\$'000)	YA2011 (\$'000)	YA2012 (\$'000)	YA2012 (\$'000)	YA2013 (\$'000)	YA2013 (\$'000)	YA2014 (\$'000)	YA2014 (\$'000)
Salaries	100	100	100	100	100	100	100	100	100	100
Qualifying ESOP gains [ESOPs qualify for ERIS (All Corporations) granted within the qualifying period]	100	-	0	-	300	-	750	-	0	-
<b>Balance of qualifying ESOP gains [after exemption]</b>	-	<b>73.5</b> <b>(100-</b> <b>26.5)</b>	-	<b>0</b>	-	<b>223.5</b> <b>(300-</b> <b>76.5)</b>		<b>598.5<sup>30</sup></b> <b>(750-</b> <b>151.5)</b>	-	<b>0</b>
Other ESOP gains *	50	50	20	20	100	100	0	0	150	150
<b>Total Taxable Income</b>	<b>250</b>	<b>223.5</b>	<b>120</b>	<b>120</b>	<b>500</b>	<b>423.5</b>	<b>850</b>	<b>698.5</b>	<b>250</b>	<b>250</b>
<i>*Amount of tax exemption</i>		26.5 [2+(100- 2)x25%]		0		76.5 [2+(300- 2)x25%]	0	151.5 [2+(600- 2)x25%]	0	0
<i>Cumulative qualifying ESOP gains under ERIS (All Corp) from YA 2010 (first YA)</i>		100		100		400		1,000		1,000
	YA2015 (\$'000)	YA2015 (\$'000)	YA2016 (\$'000)	YA2016 (\$'000)	YA2017 (\$'000)	YA2017 (\$'000)	YA2018 (\$'000)	YA2018 (\$'000)	YA2019 (\$'000)	YA2019 (\$'000)
Salaries	100	100	100	100	100	100	100	100	100	100
Qualifying ESOP gains [ESOPs qualify for ERIS (All Corporations) granted within the qualifying period]	0	-	0	-	250	-	0	-	0	-
<b>Balance of qualifying ESOP gains [after exemption]</b>	-	<b>0</b>	-	<b>0</b>	-	<b>250<sup>31</sup></b>	-	<b>0</b>	-	<b>0</b>
Other ESOP gains **	0	0	100	100	0	0	0	0	150	150
<b>Total Taxable Income</b>	<b>100</b>	<b>100</b>	<b>200</b>	<b>200</b>	<b>350</b>	<b>350</b>	<b>100</b>	<b>100</b>	<b>250</b>	<b>250</b>
<i>*Amount of tax exemption</i>		0		0		0		0		0
<i>Cumulative qualifying ESOP gains under ERIS (All Corp) from YA 2010 (first YA)</i>		1,000		1,000		1,000		1,000		1,000

\*\*These ESOP gains do not qualify for ERIS Scheme

<sup>30</sup> Under ERIS (All Corporations), Mr Z can enjoy 25% tax exemption on qualifying ESOP gains (subject to the first \$2,000 being fully tax exempt) of up to \$1 million over 10 years. Once the \$1 million cap is reached, the excess of ESOP gains over \$1 million will be taxed in full. In YA 2012 (the 3rd YA), the cumulative qualifying ESOP gains under the Scheme amounts to \$400,000. Given the cap of \$1 million, although Mr Z derives qualifying ESOP gains of \$750,000 in YA 2013 (the 4<sup>th</sup> YA), the amount of qualifying ESOP gains that can qualify for the tax exemption will be limited to \$600,000 (i.e. \$1 million less \$400,000). The excess of \$150,000 will therefore not enjoy the tax exemption under ERIS (All Corporations) and be taxed in full.

<sup>31</sup> No further tax exemption to be accorded to Mr Z in respect of gains arising from the exercise of such options as the cumulative gains arising from ERIS (All Corporations) have already exceeded \$1 million.



## ANNEX F1

### SPECIMEN

<Employee's name & identification number>  
<Employee's address>

<Date: day/month/year>

Dear <Employee's name>

### QUALIFYING CRITERIA UNDER THE EQUITY REMUNERATION INCENTIVE SCHEME (START-UPS) [ERIS (START-UPS)]

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 (Start-Ups) Plan", as set out in IRAS' e-Tax Guide on "Equity Remuneration Incentive Scheme (ERIS)" dated 26 Apr 2013. Given that you have / have confirmed to have\* met the criteria as a qualifying employee, as defined in the same IRAS' e-Tax Guide, on the date of the grant of options, you will be able to enjoy the 75% income tax exemption on gains derived by you from the exercise of the options or vesting of the share awards\*. However, this is provided your ESOP/ESOW gains are derived on or before 31 Dec 2023 and that you have not enjoyed the 75% 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*

**SPECIMEN**

<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' e-Tax Guide on "Equity Remuneration Incentive Scheme (ERIS)" dated 26 Apr 2013. Given that you have / have confirmed to have \*met the criteria as a qualifying employee, as defined in the same IRAS' e-Tax Guide, 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 vesting of the share awards\*. However, this is provided your ESOP/ESOW gains are derived on or before 31 Dec 2023 and that 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*

**SPECIMEN**

<Employee's name & identification number>

<Employee's address>

<Date: day/month/year>

Dear <Employee's name>

**QUALIFYING CRITERIA UNDER THE EQUITY REMUNERATION INCENTIVE SCHEME (ALL CORPORATIONS) [ERIS (ALL CORPORATIONS)]**

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 (All Corporations) Plan", as set out in IRAS' e-Tax Guide on "Equity Remuneration Incentive Scheme (ERIS)" dated 26 Apr 2013. Given that you have / have confirmed to have\* met the criteria as a qualifying employee, as defined in the same IRAS' e-Tax Guide, on the date of the grant of options, you will be able to enjoy the income tax exemption on gains derived by you from the exercise of the options or vesting of the share awards\* as follows:

- full tax exemption on the first \$2,000 of gains; and
- tax exemption of 25% on the remaining amount of gains.

However, this is provided your ESOP/ESOW gains are derived on or before 31 Dec 2023 and that you have not already enjoyed the income tax exemption on ESOP/ESOW gains exceeding \$1 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*