

Luiza, the finance director of Damiana plc, wishes to know the tax implications for her of two alternative ways of acquiring shares in Damiana plc.

Damiana plc:

- Is a UK resident quoted trading company.

Luiza:

- Is employed as the finance director of Damiana plc, earning a gross annual salary of £165,000.
- Has no other source of taxable income.
- Has been offered two alternative ways to acquire ordinary shares in Damiana plc.
- In either case she will sell these shares on 10 November 2020 when their market value is expected to be £32.70 per share.
- Uses her annual exempt amount for capital gains tax purposes each year.

Acquisition of Damiana plc shares – alternative 1:

- Damiana plc will transfer 5,000 ordinary shares (a 1% holding) to Luiza on 1 November 2017 for which Luiza will pay £1 per share.
- The market value of these shares on 1 November 2017 is expected to be £24.50 per share.
- Damiana plc does not expect to pay a dividend in the foreseeable future.

Acquisition of Damiana plc shares – alternative 2:

- Damiana plc will grant options over 5,000 ordinary shares to Luiza on 1 November 2017 under its newly established enterprise management incentive (EMI) scheme.
- The exercise price of these options will be £23.00 per share.
- Luiza will exercise the options on 2 November 2020.

Required:

(c) Explain the tax implications for Luiza if she acquires 5,000 ordinary shares in Damiana plc alternatively, (1) by means of a transfer on 1 November 2017, or (2) as a result of exercising the share options on 2 November 2020. On the assumption that she sells the shares as planned on 10 November 2020, calculate Luiza's net increase in wealth under each alternative. (12 marks)