

ESOPs should be taxed only when benefits are realised: Report

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New Delhi, Dec 7 () ESOPs should be taxed only when the benefits are realised by an employee, said a report on taxation in the digital economy.

Companies offer stocks to their employees by way of Employee Stock Option Plans (ESOPs).

The digital economy employs a lot of employees, many of whom are rewarded through ESOPs, said the report 'Taxation of the Digital Economy: Impact analysis for India', prepared by the Internet and Mobile Association of India (IAMAI) and **Nishith Desai Associates**.

"Keeping in mind the needs of employees in a growing sector, such as digital economy and keeping in mind liquidity issues at the time of grant of stock under ESOP schemes, it is important that employees should not be taxed before they actually realize any benefit in relation to the stock issued to them," the report said.

Currently, at the time of such exercise of options and grant of shares, the difference between the 'Fair Market Value' of the shares and the exercise price paid is taxed in the hands of the employee and the employer is subject to withholding tax obligations on the same, the report said.

The report maps the various tax issues and challenges currently affecting the digital businesses at various stages of their business cycle -- early stage, over the operating life and exit stage.

The report recommends predictability and clarity of tax provisions to ensure the digital sector reaches its potential of USD 1 trillion by 2022.

It discusses various concerns like characterisation of income, angel tax, merger, demerger and acquisitions, GST and various other such issues that affect digital businesses. NKD CS ABM
