# Share options

The Estonian Tax and Customs Board defines a **share option** in the meaning of **subsection $5^3$ of § 48 of the Income Tax Act** as a **derivative contract** concluded with the employer, which gives the employee the right (not the obligation) to buy options from the issuer or to sell options to the issuer at the exercise price specified in the contract of the underlying asset and within the term fixed in the contract.

The underlying asset of the share option is a holding in the employer or in a company belonging to the same group as the employer. The purpose of share options is to include employees in the circle of partners/shareholders and thereby increase their productivity and efficiency and reduce staff turnover.

**It is not considered a share option** if, when granting the option, **it is known in advance that the employee will not receive a share in the employer or in a company belonging to the same group as the employer**, but the employer will pay the employee the price of the underlying securities. In this case, the payment is treated as wages, salaries, or additional remuneration, from which all labour taxes are payable.

**The granting of a share option is not considered a fringe benefit. No tax liability arises when a share option is granted.**

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