

Employee Share Schemes

Share Incentive Plans (SIPs)

These plans provide three core elements which can be combined by companies in a number of ways depending on what best suits their business (limits are per employee):

- *Free shares* up to a limit of £3,000 in any tax year
- *Partnership shares* (purchased out of pre-tax and NIC salary) up to £1,500 in any tax year (or 10% of overall salary, whichever is less). There may be a minimum limit of up to £10 on any occasion. Shares may be purchased annually rather than monthly.
- *Matching shares* provided by the company to match employees' purchase of partnership shares, up to a limit of two for each partnership share purchased.

There is an overall limit of £3,000 of free/matching shares in any tax year.

The plan must be made available to all employees, but the company may set a qualifying period of up to 18 months. The only ways that an award of free shares can be varied from employee to employee are on the basis of remuneration, length of service, hours worked or performance.

Participants must not have a *material interest in* (i.e. owning or controlling more than 25% of the ordinary share capital of) *the company*, or have had one at any time in the previous 12 months.

There has to be a *holding period* of between three and five years for free and matching shares. During this period, employees are contractually bound to keep these shares in the plan.

Shares may be *dividend shares* and the company may choose to make dividend re-investment compulsory or optional. Total dividend reinvestment for any participant must not exceed £1,500 in a tax year. The holding period for dividend shares is three years.

Shares have to come out of the plan when employees leave their job. Companies can decide that employees lose their free or matching shares if they leave within three years, and that employees who leave have to sell their shares.

Tax benefits

Employees who keep their shares in the plan for five years will pay no income tax or National Insurance in respect of those shares.

Employees who keep their shares in the plan for three years will pay income tax and National Insurance on the initial value of the shares; any increase in value of the shares will be tax free.

Employees who keep their shares in the plan until they sell will have no capital gains tax to pay. If they take them out and sell later, they will pay capital gains tax only on any increase in value after the shares come out of the plan.

Enterprise Management Incentives (EMI)

Under EMI, certain small higher-risk trading companies (quoted or unquoted, with gross assets of no more than £30 million and fewer than 250 employees) can grant options over a maximum of £3 million worth of shares at any one time. The options are normally free of income tax and National Insurance charges on grant and on exercise. Certain trades are excluded from EMI options. Employees cannot hold qualifying EMI options, taking into account CSOP options also granted to them, with a total market value of more than £120,000 at the date of the grant.

Other HM Revenue & Customs approved share schemes

These will remain in place for the time being. The main features are as follows:

SAYE linked Share Option Schemes (“Sharesave”)

Employees are granted options at a discount of up to 20% at the start of the savings contract. Monthly amounts of between £5 and £250 for up to 5 years are deducted from pay, under a certified Save as you Earn (SAYE) contract with a bank or building society. At the end of the savings contract a tax-free bonus is payable. Employees use the proceeds of the savings contract, including the bonus, if they want to exercise the option, normally after 3, 5 or 7 years. If they do not, the proceeds are repaid in cash, tax free. There is no tax or National Insurance charged on the discount or on the gain made when the option is exercised.

Company Share Option Plan (CSOP schemes)

Employees are granted options to acquire shares at the market price at the time of grant. Employees may be granted options over shares worth up to £30,000 at any one time. There is no tax or National Insurance charged on the gain made when the option is exercised, provided that the options are held for at least 3 years unless participation ends through disability, redundancy or retirement.

Unapproved Schemes

These are subject to the general rules that employees are chargeable to income tax under Schedule E and National Insurance when, by reason of their employment:

- they receive shares free or cheaply
- they exercise a share option