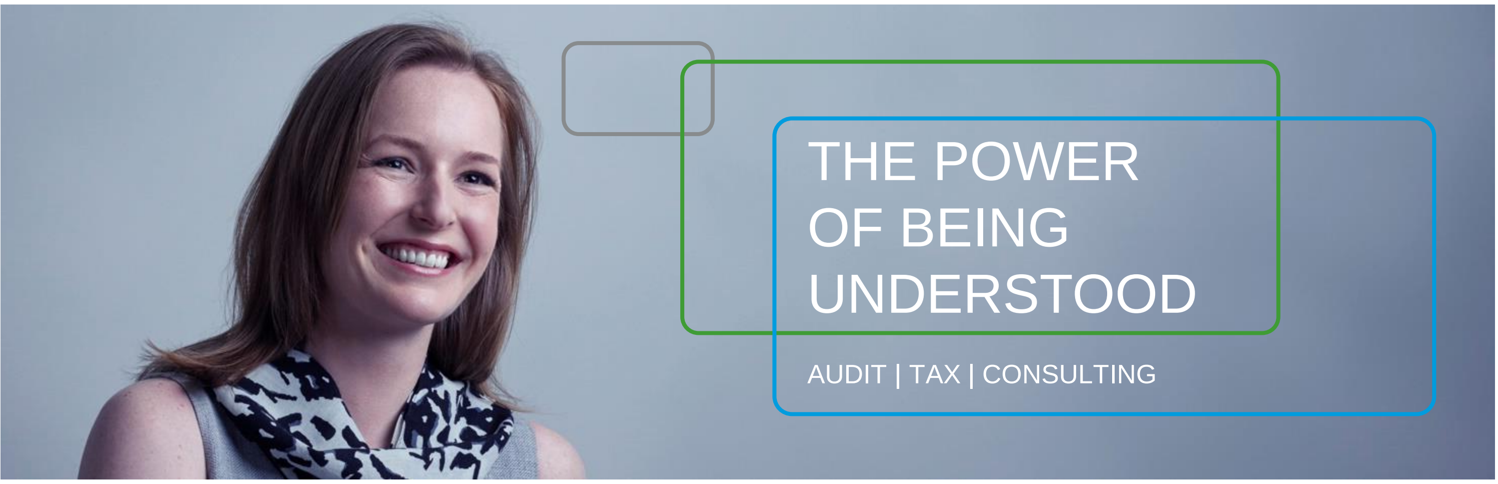

SHARE INCENTIVE PLANS

A share incentive plan (SIP) provides tax relief for shares acquired by employees. For each employee, up to £9,000 worth of shares each year (plus unlimited reinvestment of dividends) are potentially free of all tax and national insurance contributions (NICs), and the employer may reduce NICs with a possible corporation tax deduction.

Key points

There are three main types of share awards and which the company may choose to offer each year:

Free shares – each employee may receive free shares worth up to £3,600.

Partnership shares – employees can use up to £1,800 (or 10 per cent of salary, if lower) out of pre-tax/NICs pay to buy partnership shares.

Matching shares – the employer can give up to two matching shares for each partnership share bought by the employee. The maximum value of matching shares is therefore £3,600 per year.

All qualifying employees must be offered the chance to participate on the same terms but:

- employees can choose how many partnership shares they want to buy up to the limits; and
- free shares may be awarded by reference to length of service, rate of pay, and hours of work, and/or by reference to company or departmental performance targets.

Also, a minimum length of service can be permitted to specify a period, effectively up to 18 months, before employees can participate.

SIPs offer flexibility to suit the business needs of the company.

- Partnership shares may be purchased from monthly payroll or a single payment.
- Matching shares can be given subject to continued employment and effectively discount the price of partnership shares.
- Free shares can provide a bonus to employees if cash is short.
- Dividends can be reinvested tax-free reducing cash distributions (**dividend shares**).

Optional features for employers

Forfeiture – companies can make employees give up some or all of their free or matching shares if they leave, for certain reasons, within three years of the award date.

Holding periods – the employer can require free and matching shares to be held in the plan for any period between three and five years (for dividend shares this period must be three years), unless the employee leaves early.

Tax advantages for participants

Awards of free and matching shares are free of income tax and NICs. The employee purchases partnership shares out of salary before income tax and NICs are calculated. Keeping the shares within the plan for five years provides the full tax relief. There is normally no tax charge on dividends paid on plan shares used to buy further plan shares that remain in the SIP for at least three years.

The shares may grow in value free of capital gains tax (CGT) within the plan. The employee's base cost for future disposals is the market value of the shares at the time they leave the plan. Further, an employee who transfers shares from a SIP into a registered pension scheme obtains further tax relief for the value of the shares transferred.

Tax benefits for employers

An employer can normally claim relief against corporation tax for the value of shares provided under a SIP and is not liable for employer's NICs on shares given to, or purchased by, employees through the plan.

The costs of setting up the plan are normally deductible by the employer for corporation tax purposes.

Administration

Once established, the employer must make arrangements for the administration of the plan. Shares will be held by a trustee so there are not lots of minority shareholders to deal with. Professional administrators can be appointed, or it may be possible to run the plan in-house. Administration may be reduced by including a holding period in the plan to limit the extent of employees withdrawing shares early and giving rise to income tax and NICs charges.

The employer must register and self-certify the plan with HMRC and make annual returns.

Other considerations

It is important to check the accounting position of any share plan transactions.

All share plans can be expanded to accommodate international participants (without the UK tax advantages).

Pay careful attention

The tax legislation, rates and reliefs referred to herein are applicable at April 2021. Tax rules change frequently and the value of a relief from taxation depends on the circumstances of the taxpayer.

Contact

For further information on share schemes, please contact your usual RSM adviser.

The following table provides details of the tax treatment of shares withdrawn from a SIP.

	WITHDRAWN < 3 YEARS AFTER AWARD	WITHDRAWN BETWEEN 3 AND 5 YEARS AFTER AWARDS	WITHDRAWN 5 YEARS OR MORE AFTER AWARD	DISPOSAL OF SHARES DURING HOLDING PERIOD (IF APPLICABLE)	CESSATION OF EMPLOYMENT AS INVOLUNTARY LEAVER
FREE AND MATCHING SHARES	Income tax/NICs on market value (MV) of shares at date of removal from the plan.	Income tax/NICs on lesser of MV at date of award and MV at date of withdrawal from plan.	No income tax or NICs.	Income tax/NICs on MV at date of disposal.	No income tax or NICs.
PARTNERSHIP SHARES	Income tax/NICs on MV of shares at date of removal from the plan.	Income tax/NICs on lesser of salary used to buy the shares and MV at date of withdrawal from the plan.	No income tax or NICs.	Not applicable.	No income tax or NICs.
DIVIDEND SHARES	Income tax on dividend used to buy the shares withdrawn.	No income tax or NICs.	No income tax or NICs.	Not applicable.	No income tax or NICs.