



Share Incentive Plan (Formerly Employee Share Ownership Plans)

What is a Share Incentive Plan?

It is a Plan established by a company providing for:

- a. 'Free shares' to be apportioned to employees without payment
- b. 'Partnership shares' to be acquired on behalf of employees out of sums deducted from their salary
- c. 'Matching shares' to be appropriated without payment to employees in proportion to the partnership shares acquired.

Companies can implement plans providing any or all of the above types of shares.

The HM Revenue & Customs must approve the Plan.

The main advantages of a Share Incentive Plan

- A motivational tool to attract/retain key employees
- Tax benefits and payroll savings for employers
- Shares may be awarded by reference to performance
- Employees able to buy partnership shares out of pre-tax salary, free of Income Tax and National Insurance
- Employees who keep their shares in the plan for five years pay no Income Tax or National Insurance on those shares

Corporation Tax

Deductions in computing taxable profits for:

- The costs of setting up and running the plan
- The market value of free and matching shares awarded
- The gross salary allocated by employees to buy partnership shares

Income Tax and National Insurance contributions

- No tax on award of shares
- If shares are withdrawn after less than 3 years, tax and NIC is charged on the market value of the shares when they leave the plan
- If shares are withdrawn after more than 3 years but less than 5 years, tax and NIC is charged on the lower of
 - The market value of the shares
 - The market value of the shares when they leave the plan
- Tax & NIC is chargeable on partnership share money returned to the employee
- No charge to tax or NIC as a result of redundancy/retirement/death
- Dividends reinvested or retained for reinvestment are not subject to income tax

Capital Gains Tax

- Gains accruing to trustees are not chargeable providing awarded to employees within
- Two years if readily convertible assets
- Five years if not readily convertible assets
- No chargeable gain on shares ceasing to be subject to the plan
- Rollover relief for gains arising on disposals to plan trustees

TYPES OF SHARES

Shares that may be used

- Must be ordinary share capital of the same company
- Must be fully paid up and not redeemable (exemption available for co-operatives)
- Must not be subject to any restrictions other than:
 - Holding period
 - Those affecting all ordinary shares
 - Voting rights
 - Provision for forfeiture
 - Pre-emption conditions

Free Shares

- An employee may not receive more than £3,000 of free shares in any tax year
- Award may be made by reference to performance
- Performance measures must be based on business results or other objective criteria
- Employees must be notified of the performance targets and measures
- Some or all of the shares may be awarded by reference to performance
- The company must specify a holding period of between 3 and 5 years during which the free shares remain in the hands of the trustees.

Partnership Shares

- The deductions from an employee's salary must not exceed
 - £1,500 per annum and
 - 10% of salary
- The company may specify lower limits
- The company may specify a minimum deduction of no greater than £10
- Partnership share money must be paid to the trustees as soon as is practicable
- The trustees must purchase the shares within 30 days of the end of the accumulation period (maximum 12 months)

Matching Shares

- Shares of the same class and carrying the same rights as partnership shares
- Awarded to all employees on the same basis
- Ratio of matching shares to partnership shares must not exceed 2:1

Dividend Shares

- Dividends of up to £1,500 per tax year may be reinvested to acquire 'dividend shares'

MISCELLANEOUS PROVISIONS

The Trustees

- Resident in the UK
- Responsibilities include:
 - Acquiring shares and appropriating to employees
 - Applying partnership money in acquiring shares on behalf of the employees

General Requirements

- Every employee who is eligible to participate in the plan is invited to do so
- Employees must be invited to participate on the same terms
- No feature of the plan must be likely to have the effect of conferring benefits wholly or mainly on directors or higher paid employees

Eligibility of Individuals

- An employee of the company or, in the case of a group plan, of a participating company
- An individual who does not have a material interest in the company
- An individual not participating in another approved share scheme established by the company

Set-up and Running Costs

This will depend up on the size and complexity of the scheme but we would expect our fees to be in the region of £6,500 to £12,000. We will provide a fixed fee quote in advance to include scheme design, drafting to the Trust Deed and obtaining HM Revenue & Customs approval.

The Plan's annual running costs, in terms of four fees, will also depend up on the size and complexity of the scheme, but typically will be in the region of £1,000 to £3,000.

Main features of a typical plan

- Employees can buy 'partnership shares' from their gross monthly salary or weekly wages, free of tax and NICs at that point – maximum salary allocation of £1,500 each year with an earnings cap of 10% minimum contribution £10 a month
- Employers can give up to £3,000 of free shares to all employees, tax and NICs free at that point
- Employers can match the 'partnership shares' with up to 2 free shares for each partnership share bought by the employee – known as 'matching shares' – also tax and NICs free at that point
- Employers have greater flexibility in the way that they reward employees with free shares in return for reaching performance targets; for example allowing personal, team, or divisional performance to be rewarded
- Employees will not normally be able to withdraw free and matching shares from the plan for 3 years
- Free and matching shares will be completely free of tax and NICs if they have been held in the plan for 5 years, and will be taxable on their initial value between years 3 and 5
- Partnership shares will be subject to tax and NICs on their market value if employees take them out of the plan in the first 3 years
- Partnership shares held in the plan after the 3 year point will have tax advantages, with shares becoming completely free of tax and NICs after 5 years in the plan
- Any gain in the value of any shares while they are in the plan will be tax and NICs free
- When shares come out of the plan, their market value at that date will form the base cost for any capital gain arising on any subsequent sales

- Employees have to take their shares out of the plan when they leave employment
- Free and matching shares may be subject to forfeiture if the employee leaves within 3 years. 'Good leavers' such as those who have left through redundancy, retirement or death will receive favourable tax treatment and their plan shares will not be subject to forfeiture
- Dividends paid on the shares in the plan will be tax-free, up to annual limits, provided they are used to acquire additional shares in the company
- Companies will get a deduction in computing their taxable profits for the costs of setting up and running the plan, and the value of shares used in the plan
- Companies can provide that shares must be offered for sale when employees leave; companies can offer shares with no voting rights; companies, but typically those with fewer shares, can offer shares subject to forfeiture. These measures are specifically to encourage smaller companies to participate.

For further information contact:

Geoff Taylor, Tax Partner, gtaylor@streetsweb.co.uk

Paul Merrell, Tax Director, pmerrell@streetsweb.co.uk

STREETS

Tower House
Lucy Tower Street
Lincoln
Lincolnshire
LN1 1XW

Tel: 01522 551200
Fax: 01522 533234

St Peters Chambers
2 Bath Street
Grantham
Lincolnshire
NG31 6EG

Tel: 01476 590838
Fax: 01476 590795

Halifax House
30 George Street
Hull
East Yorkshire
HU1 3AJ

Tel: 01482 225399
Fax: 01482 219964

Lloyd's Building
12 Leadenhall Street
London
EC3V 1LP

Tel: 020 7816 5827
Fax: 020 7816 5826

87 Park Road
Peterborough
Cambridgeshire
PE1 2TN

Tel: 01733 312191
Fax: 01733 896214

Churchgate House
33 Churchgate
Retford
Nottinghamshire
DN22 6PA

Tel: 01777 869955
Fax: 01777 869962

[e enquiries@streetsweb.co.uk](mailto:enquiries@streetsweb.co.uk)
www.streetsweb.co.uk

These notes are for general guidance only. No liability is accepted by Streets for actions taken in reliance upon these notes and it is essential that detailed advice relating to the particular circumstances of the case in question should always be obtained before action is taken.

Streets is a trading style of Streets LLP, Streets Northern LLP, Streets Southern LLP, Streets Tax LLP, Streets Audit LLP and Streets Financial Consulting plc Streets LLP (registered number OC309545), Streets Audit LLP (registered number OC309381), Streets Northern LLP (registered number OC309382), Streets Southern LLP (registered number OC309380) and Streets Tax LLP (registered number OC309379) are all Limited Liability Partnerships registered in England. Their registered office is Tower House, Lucy Tower Street, Lincoln LN1 1XW. A list of the names of the members is available for inspection at this address. Streets Audit LLP is registered by the Institute of Chartered Accountants in England and Wales to carry out company audit work Streets Financial Consulting plc (registered number 2029793). Registered office : Tower House, Lucy Tower Street, Lincoln LN11 1XW. A list of directors is available for inspection at this address. Streets Financial Consulting plc is authorised and regulated by the Financial Services Authority For regulation purposes, corporate finance work undertaken may be dealt with by Streets Financial Consulting plc, which is authorised and regulated by the Financial Services Authority