

EMPLOYEE SHARE SCHEMES

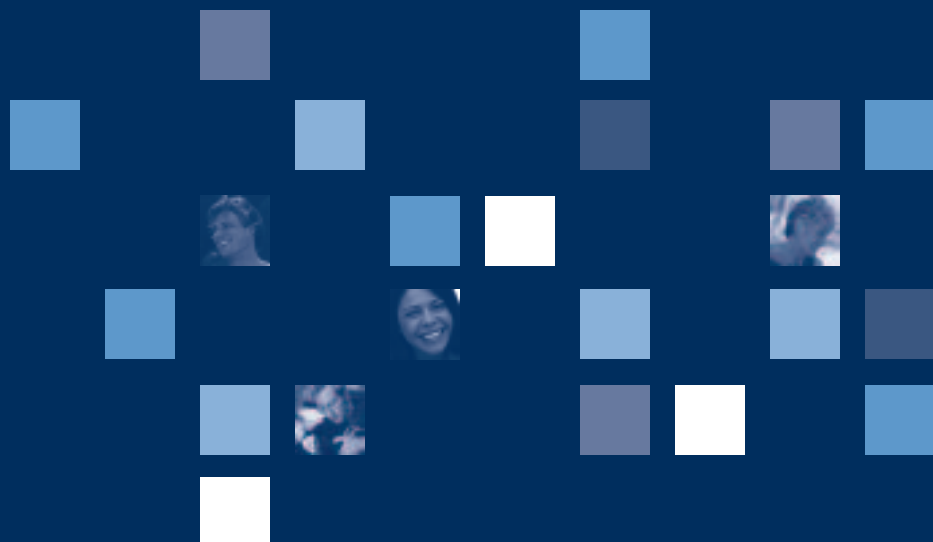


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Streets is a leading top 50 UK firm of Chartered Accountants and Tax Advisers, servicing the needs of owner managed businesses and corporate clients.

The firm is experienced in providing advice on and the setting up of employee share schemes.



What is a share incentive scheme?

A share incentive scheme provides the opportunity for employees to buy or subscribe to shares in the company they are employed by.

There are a number of established share incentive schemes:

- Share Incentive Plans (SIPs)
- Enterprise Management Incentives (EMI)
- Company Share Option Plan (CSOP)
- Save As You Earn (SAYE)
- Unapproved Schemes

Share ownership and employee benefits

Research suggests that employee share ownership and the provision of share incentive schemes benefit both the employee and employer in a number of ways:

- Helping to attract and recruit key staff
- Helping improve retention of key staff
- Improving employee motivation and productivity
- Providing similar remuneration and reward benefits offered by larger concerns including public limited companies

Setting up an HM Revenue and Customs (HMRC) approved share incentive scheme can offer generous tax reliefs, to both employees and employers. Once shares are owned by the employee it may be more tax efficient to pay dividends instead of bonuses, as dividends are free of National Insurance and are subject to a lower rate of income tax.



Share Incentive Plans (SIPs)

A SIP is used by a company to provide:

- 'free shares' to be apportioned to employees without payment
- 'partnership shares' to be acquired on behalf of employees out of sums deducted from their salary
- 'matching shares' to be appropriated without payment to employees in proportion to the partnership shares acquired

Companies can implement plans providing one or all of the above types of shares. There are no restrictions on the type of company that can establish these schemes. Every employee who is eligible to participate must be invited to do so and all on the same terms.

The Government sees share incentive plans as a means of bridging the productivity gap. The Government is keen to make it attractive to private companies and has therefore allowed schemes to be non-voting and the shares to be subject to a buy-back on leaving employment.

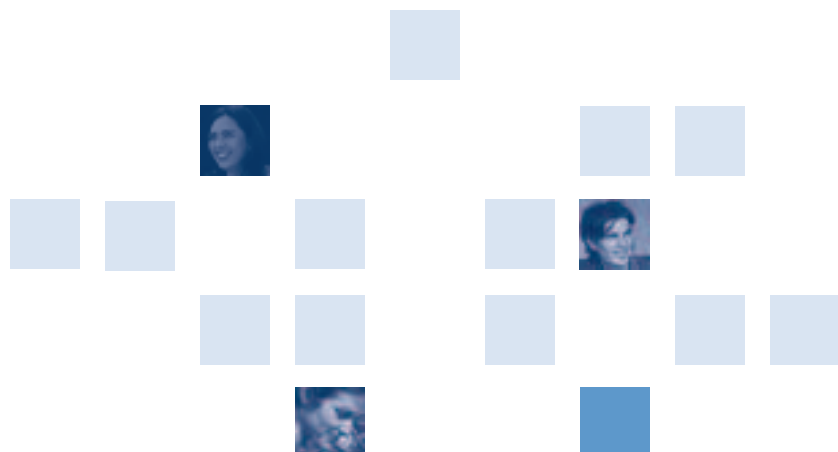
A company can gift shares up to a value of £3,000 each year, free of tax and National Insurance Contributions (NIC). Employees can also forego up to £1,500 of pre-tax salary ('partnership shares') with the employer matching the process by giving employees up to two free shares for each partnership share.

Enterprise Management Incentives (EMIs)

A share incentive scheme is designed to help small companies attract and retain key personnel and reward those employees for taking a risk by investing time and skill in helping that company achieve its potential.

Key benefits are:

- No Income Tax or NIC charges on options granted at market value
- Shares qualify as business assets for taper relief from the date of the grant
- Tax benefits and payroll savings for employees



This scheme is designed for use by trading companies with gross assets of less than £30 million. The company must be independent and cannot conduct certain activities (e.g. property development, accountancy, and banking).

Any number of employees can be included so long as the total value of options does not exceed £3million. The maximum value of EMI options for each employee can be up to £100,000. The option terms can be very flexible and performance conditions may be attached. Shares may be non-voting and employees can be required to give up their shares on leaving employment.

The scheme is ideally suited to growth companies which cannot afford to pay large cash bonuses to motivate and retain key staff. For all small companies, EMI options are far more tax efficient than cash bonuses. After two years the Capital Gains Tax rate on share disposals is only 10% compared to 40% Income Tax plus NIC on cash bonuses.

Company Share Option Plan (CSOP)

This is a discretionary share option scheme which, in reality, is only now used by companies which do not qualify for the more generous EMI scheme (e.g. because they are 'large').

The options must be granted at market value and the maximum value for each employee must not exceed £30,000. The options must be exercised not earlier than three years and no later than ten years following grant. Any profit on disposal of the shares is chargeable to Capital Gains Tax rather than Income Tax.

Save As You Earn (SAYE)

This is a share option linked to an approved savings scheme. The savings accrue tax free to provide the funds to acquire shares when options are exercised. Employees may save up to £250 per month.

No Income Tax or NIC is payable on the grant or exercise of the SAYE options. Capital Gains Tax is, however, payable on disposal of the shares.



Unapproved schemes

Many companies establish unapproved schemes despite the availability of HMRC approved schemes. This often occurs when a company that does not qualify under the EMI scheme wishes to grant discretionary options to employees with a value in excess of £30,000.

A gift of shares to an employee will give rise to Income Tax and NIC based upon the market value of the shares. No tax charge arises on the grant of an option but Income Tax and NIC is payable on exercise on the difference between market value at exercise and exercise price.

Setting up a share scheme

- We will review your objectives and discuss the scheme options that most suit you. Based on this initial discussion we will provide you with a fixed fee quotation for the work to be carried out
- We will advise you on the setting up of your share scheme, provide draft scheme documentation and guidance regarding its on-going administration
- We will assist with an initial share valuation and agree this with HMRC. We will also notify them of the scheme's particulars, as required by law
- We will provide on-going guidance on the scheme's management and provide assistance with the completion of the Annual Return



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