Your guide to

SHARE INCENTIVE PLAN

UK and International

YBS SHARE PLANS

Helping employees take a stake in the business by providing an opportunity to acquire shares in their employing company on advantageous terms.

The Share Incentive Plan (otherwise known as "SIP", Buy As You Earn or "BAYE") is an HM Revenue and Customs (HMRC) all-employee tax-advantaged share plan that offers income tax and National Insurance Contributions ("NIC's") advantages for employees and companies, provided the plan meets the requirements of Schedule 2 of the Income Taxes (Earnings and Pensions) Act 2003 and is also registered and reported via HMRC's ERS Online filing service. Introduced under the 2000 Finance Act, it is a broad based plan designed to encourage more companies to offer shares to all their employees on a tax-efficient basis.

According to the latest ProShare report (June 2018) there are approximately 420 live SIPs in operation in the UK with more than 960,000 participating employees.

How does it work?

A SIP must be made available to all employees of a participating company who have completed a minimum length of service (as specified in the Plan Rules) and who are liable to UK tax on their general earnings. There are four different ways in which employees can acquire shares under a SIP. The company can tailor the plan to the needs of their business by deciding which of these four elements they offer to their employees. A summary of the key features of each element follows adjacent.

Key Features

Free Shares

- A company can give up to £3,600 of Free Shares per annum to each eligible employee. The award of Free Shares can be subject to certain performance conditions.
- Free Shares must be subject to a holding period of between 3 and 5 years and employees cannot remove them from the SIP during this period whilst they remain employed by the company.
- The company has the option to impose a forfeiture period of up to 3 years from the date of award. This results in the employee losing the shares if they leave the company in certain circumstances (as defined in the Plan Rules) during this period.
- Employees have no income tax or NICs to pay at the date of award.
- Employees must remove Free Shares from the SIP immediately upon leaving the company and there may be income tax and NICs to pay depending on how long they have been held and the reason for leaving.
- Once Free Shares have been held in the SIP for 5 years from the date of award there is no income tax or NICs to pay, regardless of the circumstances under which they are withdrawn.

Partnership Shares

- These are shares that the employee can choose to purchase using their pre-tax salary.
- The maximum contribution is £1,800 per annum (£150 per month) or 10% of gross salary (whichever is lower).
- Shares can be purchased on a monthly basis or after an accumulation period of up to 12 months. The company also has the option to allow lump sum contributions.
- If Partnership Shares are withdrawn from the SIP within 5 years of the date they were purchased there is usually some income tax and NICs to pay unless the employee has left the company in certain circumstances (as defined in the Plan Rules).
- Income tax and NICs payable on shares withdrawn within 3 years of their purchase date is calculated using the market value of the shares at the date of withdrawal.
- Income tax and NICs payable on Partnership Shares withdrawn 3 to 5 years after their purchase date is calculated using the lower of the market value of the shares at the date of purchase and the market value of the shares at the date of withdrawal.
- Once Partnership Shares have been held in the SIP for 5 years from the date of purchase there is no income tax or NICs to pay, regardless of the circumstances under which they are withdrawn.

Key Features continued

Matching Shares

- To reward the employees' commitment the company can choose to give them up to 2 Matching Shares for every Partnership Share they purchase.
- Matching Shares must be subject to a holding period of between 3 and 5 years and employees cannot remove them from the SIP during this period whilst they remain employed by the company.
- The company has the option to impose a forfeiture period of up to 3 years from the date of award which results in the employee losing the shares if they leave the company in certain circumstances (as defined in the Plan Rules) during this period.
- If the employee withdraws any Partnership Shares within 3 years of their purchase, they will forfeit the corresponding Matching Shares unless they are leaving the company in certain circumstances (as defined in the Plan Rules).
- Matching Shares are provided at nil cost to the employee and employees have no income tax or NICs to pay at the date of award.
- Income tax and NICs is payable on Matching Shares withdrawn 3 to 5 years after their award date and is calculated using the lower of the market value of the shares at the date of award and the market value of the shares at the date of withdrawal.
- Once Matching Shares have been held in the SIP for 5 years from the date of award there is no income tax or NICs to pay, regardless of the circumstances under which they are withdrawn.

Dividend Shares

- Dividends paid on SIP shares can be paid out in cash or re-invested to purchase further SIP shares known as Dividend Shares.
- Dividends Shares are subject to a 3 year holding period and employees cannot remove them from the SIP during this period whilst they remain employed by the company.
- Employees will not pay any income tax on Dividend Shares once they have been held for 3 years.
- If an employee leaves the company (under certain circumstances defined in the Plan Rules) and withdraws shares within 3 years of the date they were purchased, the amount of dividend used to buy these Dividend Shares will count towards the Annual Dividend Allowance for the tax year in which they leave the company. This could result in income tax becoming due if the Annual Allowance in force at that time is exceeded.

Voting

The company can decide whether or not their SIP shares will carry voting rights. Employees instruct the SIP Trustees how to vote on their behalf at General Meetings of the company.

A note about Capital Gains Tax

Any increase in value whilst shares remain in the SIP is not subject to Capital Gains Tax (CGT). If the employee sells shares directly from the Trust, whilst still employed, they won't pay any CGT when they sell them either. Employees may however have CGT to pay if they sell any SIP shares on leaving the company or if they withdraw them from the SIP, hold them for a while and then sell them at a later date.

Any CGT that becomes due will be calculated by reference to any increase in the value of the shares between the date they were withdrawn from the SIP and the date on which they are sold. You can find further information about CGT on the HMRC website at www.gov.uk/capital-gains-tax/overview.

It is worth noting that shares released from a SIP can be transferred into an ISA or a pension provided this is done within 90 days of withdrawal (and employees don't exceed the applicable ISA or total pension fund limit in force at that time).

Employer information

Employers who provide a SIP will receive a tax deduction for the costs of setting up and running the plan as well as for the market value of any Free and Matching Shares used. Employer NIC treatment will be the same as the employee's and will vary according to when the shares are withdrawn from the plan.

SIPs are established under a trust structure. An employee trust will purchase (or subscribe for) the shares to be used for the purposes of the plan, and will hold the shares on behalf of employees.

Shareholder approval is required before a listed company can establish a SIP unless the plan only uses existing shares purchased in the market. Unlisted companies will need to obtain shareholder approval in certain circumstances, e.g. if the company needs to amend its articles of association to allow employees to sell shares.

YBS Share Plans Share Incentive Plan Services

- Act as both Administrator and Trustee
- Dedicated account manager – single point of contact
- Project planning and management
- Communication and engagement campaign management
- Onsite presentations and workshops
- Application and share withdrawal instruction processing
- Employee helpline
- Employee portal for inquiries and transacting
- Receipt and allocation of employee contributions to individual accounts
- Payroll training and admin support
- Leaver administration
- Assistance with annual HMRC returns
- Participant and shares held in Trust register (fully flexible reporting capability)
- Director and PDMR reporting
- Plan Rules and Trust Deed review
- Dividend, Voting and Corporate Action Management
- Annual statements
- Share dealing and nominee services
- Financial education and wellbeing services
- Continual service enhancement through proactive use of client and customer feedback

What if you want to take your SIP International?

Extending your SIP internationally can help foster engagement and a sense of common purpose amongst your colleagues around the world. International SIP mirrors the UK SIP in terms of structure, minimum and maximum contribution limits and maximum value of matching shares available. Whilst the Tax Advantaged status (i.e. contributions being deducted from pre-tax salary and relief from CGT) is limited to the UK you can still use Matching Shares to incentivise and reward overseas colleagues who commit to investing their own money in your business.

Employees can buy partnership shares with a monthly contribution of up to £150 per month equivalent in local currency.

Savings are converted from local currency into pounds sterling to buy the shares and then converted back if the shares are sold.

WANT MORE INFORMATION?

If you want to learn more about YBS Share Plans and the types of share plans we administer you can contact us:-

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Watch our SIP product video to find out more information

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