

Share Incentive Plan (SIP)



General Features

Companies are able to choose between a flexible combination of three modules:

Free shares

Employers can give up to **£3,000** worth of free shares per annum to employees free of income tax and National Insurance (NICs). The legislation also provides two alternatives for awarding shares on the basis of performance (individual, team, divisional or corporate):

- Firstly, up to 80% of the shares awarded can be linked to performance. The highest performance award to any employee cannot be more than four times greater than the highest award made to an employee on the 'similar terms' basis.
- Secondly, all shares may be awarded by reference to performance as long as awards made to the employees in each performance unit are made on similar terms to the other employees in that unit.

Partnership Shares

Employees can buy shares from their pre-tax salary subject to a limit of the lower of £1500 per annum or 10% of salary.

Again, these shares are free of income tax and NICs.

Companies can provide for either:

- Salary deductions to be accumulated for a period of up to 12 months, the '**accumulation period**', with shares having to be bought within 30 days of the end of the period (the price used will be the lower of the market value at the beginning or end of the accumulation period); or
- The purchase of the shares out of deductions from employee's pay (usually weekly or monthly) – shares must be bought within 30 days of the deduction from pay.

Matching shares

Employers can give employees up to two free shares for each partnership share the employee buys.

Eligibility

Companies must offer all employees whose remuneration is within Case 1 Schedule E the opportunity to participate in the plan whether they work full or part time. Companies can require employees to have completed a minimum qualifying period of employment before they can participate, but that period must not be more than 18 months at the time the award is made.

Holding Period

Free Shares	Partnership Shares	Matching Shares	Dividend Shares (see 'Dividends' section)
At least 3 years from the award of shares (this can be up to 5 years if the Company chooses)	None	At least 3 years from the award of shares (this can be up to 5 years if the Company chooses)	3 years from acquisition

Where an employee leaves the company, their shares must be transferred to them. A tax charge may then arise, which is explained under the **'Taxation'** section of this fact sheet.

Limits

Free Shares	Partnership Shares	Matching Shares	Dividend Shares (see 'Dividends' section)
Up to £3,000 per tax year.	Up to £1500 per annum or 10% of salary, whichever is less.	Up to two matching shares for each partnership share bought.	Dividends from the shares from the plan can be reinvested – up to £1,500 per year.

Tax Treatment for Employees

Free Shares

Withdrawal within 3 years of the date of the award

Where shares are withdrawn within three years of the date of the award, income tax and NICs will be paid on the market value of the shares at the date of leaving.

Between 3 and 5 years of the date of the award

If the shares are withdrawn between three and five years after they have been awarded, income tax and NICs will be due on the lesser of the market value of the shares when they were first awarded and the market value of the shares on the date of leaving.

After 5 years

Employees become entitled to shares unconditionally at the end of the holding period. They can choose to leave them in the plan or take them out and hold them elsewhere or sell them. Employees not wanting to pay income tax or NICs on the shares must keep them in the plan for five years.

No Capital Gains Tax is payable when shares are taken out of the plan. Employees who sell their shares directly from the plan will have no CGT. Employees may choose to keep shares when they come out of a plan and sell them later. If they do this, they will be liable to CGT only to the extent that the shares have increased in value since they were withdrawn from the plan.

Leavers

The trust must transfer plan shares to those employees who leave employment for whatever reason. However, if the shares have been held in the plan for at least five years, there is no income tax or NICs to pay.

Free shares cannot be taken out of the plan before the third anniversary of the award, unless the participant's employment ends before that date. Where employment ends before the shares have been held for three years, the employees will have to pay income tax and NICs on the market value of the shares at the date of leaving.

If the employee leaves for one of the specified reasons (such as disability, redundancy, retirement or death), the shares can be withdrawn tax-free.

If payments in excess of 10% of salary have been made at the date of leaving then a correction needs to be made irrespective of the reason for leaving.

Partnership Shares

As already indicated, employees can allocate pre-tax salary to the purchase of partnership shares. However, this will not affect their ability to contribute to retirement benefit schemes, retirement annuity schemes and personal pension plans.

In these cases, the ability and extent to which it is possible to contribute to pension schemes is determined by a set percentage of salary. In order to protect employees' rights HM Revenue & Customs has stated that salary allocated to partnership shares will not limit payments for pension contribution purposes.

Tax Treatment for Employees (continued)

Withdrawal before the shares have been held for 5 years **After 5 years**

Employees who withdraw partnership shares from a plan before they have been held in the plan for five years may have to pay tax and NICs in respect of those shares. The amount of any income tax charge will reduce the longer the partnership shares are held in the plan:

- Where the partnership shares have been held in the plan for less than three years, employees will pay income tax and NICs on an amount equal to the market value of the partnership shares at the time they are removed from the plan;
- Where the partnership shares have been held in the plan for at least three years but less than five years, employees will pay income tax and NICs on the lesser of the salary used to buy the shares and the market value of the shares at the time they are removed from the plan.

Once the shares have been held in the plan for at least five years employees will be able to remove the shares from a plan at any time without paying income tax.

The treatment of partnership shares with respect to CGT is the same as free shares, as outlined above.

Matching Shares

The income tax and CGT treatment of matching shares for employees will be same as for free shares.



Tax Treatment for Employers

Corporation tax relief

Companies are allowed deductions against corporation tax by the SIP legislation for certain costs of setting up and operating the plan.

They are also allowed a deduction in computing their taxable profits for their costs in setting up a SIP.

PAYE and NICs

An employer will have to operate PAYE and account for NICs where a Schedule E income tax charge arises under the terms of the plan and the plan shares can be readily converted into cash.

Employer's NIC relief is available on salary deductions used to buy partnership shares.

Dividends

The plan also allows employers to offer dividend reinvestment for employees with shares in a plan. Employers can choose whether to provide:

- For the dividend to be paid out to employees, in which case it will be taxable in the normal way
- For the dividends in respect of shares in a plan to be reinvested in **'dividend shares'** within specified limits

(up to £1,500 per year), any balance is paid to the employee and taxed in the normal way

The dividends received by trustees must be reinvested in plan shares on behalf of employees within 30 days of the time at which dividends become payable.

Dividend shares will be subject to a holding period of three years during which employees will not be permitted to sell them, unless they leave the relevant employment. Where employees leave the relevant employment during the holding period their dividend shares will be transferred out of the plan and income tax will be payable on the original dividend as if it had been received in the normal way but in the year employment ceased.

Once the three-year holding period has expired the dividend shares can be withdrawn tax free, and if they are sold immediately there will be no CGT. Alternatively, these can be held in the plan until the participant's employment ceases.

Forfeiture of Shares

The new plan provides for forfeiture of free shares but the forfeiture period cannot exceed three years from the award of shares and companies may specify a shorter period.

Companies may, if they wish, provide in the plan rules that matching shares will be forfeited if the employee leaves the relevant employment other than for a specified reason such as disability or redundancy. Matching shares can also be subject to forfeiture if the corresponding partnership shares are withdrawn within three years of purchase. However, Partnership shares themselves cannot be subject to forfeiture.

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JN6093b