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Employee Incentives Group

Tax-Advantages: A fresh look at SIP, Sharesave, CSOP and EMI

Amidst the negative publicity surrounding incentives with 'unacceptable' tax-avoidance features, it is important to remember those plans that can be designed within tax-favourable HMRC rules. Although there are limits on the levels that can be awarded under such plans, the benefits of tax-advantaged status should not be underestimated.

There are currently four tax-advantaged share plans; Share Incentive Plans (**SIP**) and SAYE Option Schemes (**Sharesave**) under both of which participation must be offered to all eligible employees and Company Share Option Plans (**CSOP**) and Enterprise Management Incentive Plans (**EMI**) where the company can choose who receives awards.

Why Tax-Advantaged Share Plans?

Tax-advantaged plans provide an environment in which participants can receive relief from income tax and National Insurance Contributions (**NICs**) on their share incentives gains. Although capital gains tax may still arise, this is currently charged at a lower rate and can be reduced by any available annual allowances and reliefs which are often otherwise unused by employees. Tax-advantaged plans are also beneficial to companies in terms of employer's NICs savings and corporation tax deductions.

Which Tax-Advantaged Share Plan?

A common requirement of all tax-advantaged plans is that they have to be over shares in an independent private company or a company that is listed on a recognised stock exchange. Subject to this, when deciding which of the tax-advantaged share plans to offer, some of the points a company has to consider are:

- Should it be an all-employee plan (such as SIP or Sharesave) or a discretionary plan where the company can pick and choose who participates (such as CSOP or EMI)?

- Should shares be owned from the outset (SIP) or acquired at a later date through a share option (CSOP, Sharesave, EMI)?

- Should awards to be subject to the satisfaction of performance conditions (CSOP and, in some circumstances, EMI and SIP)?
- Are shares to be acquired at market value (CSOP) or does the company want to be able to offer shares at a discount (Sharesave and EMI) or for no payment (SIP and EMI)?
- Should the acquisition of shares be funded through regular deductions from salary (SIP and Sharesave)?

Whichever plan a company chooses it must comply with the relevant HMRC rules if the associated tax advantages are to be secured. These rules typically impose limits on the number of shares or value of an award held by an employee as well as the length of time it has to be held before tax advantages become available.

If you would like to discuss the different forms of tax-advantaged share plan and which of them would be right for your business in more detail, please do not hesitate to get in touch with a member of the Travers Smith Employee Incentives team:

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