Share Incentive Plans

- Share Incentive Plans are all-employee, tax-advantaged share ownership plans;
- Companies can award each participant free shares worth up to £3,600 per year;
- Employees may purchase £1,800 worth of partnership shares from their pre-tax salary every year which can be matched with further free shares;
- Shares are held in a specially formed employee trust for at least three years.

WHAT IS A SHARE INCENTIVE PLAN?

A Share Incentive Plan (**SIP**) is a share ownership plan under which an employer has three different ways of encouraging longer-term employee share ownership. Employees can be offered **free shares** worth up to £3,600 in value in each tax year and be given the right to buy **partnership shares** out of pre-tax income to the value of £1,800 per tax year. Further free shares, based on the number of partnership shares purchased (**matching shares**), can be awarded to the maximum value of £3,600 per annum.

Shares acquired under a SIP are owned by the participant from the outset subject to the rules of the plan. This means that, unlike a share option, the participant is a shareholder and can benefit from dividends and other rights from the date of the award. The shares are held for participants within a specially formed SIP trust.

SIP is an all-employee plan which means invitations to participate must be made to all full-time and part-time employees. It is possible to impose a minimum period of service although this must not exceed eighteen months.

While a company's SIP rules may allow it to provide free shares, partnership shares and matching shares, it is possible for the company to offer only one or two elements at any one time and the combination of elements offered can change from year to year. Dividends paid on shares held within the SIP trust may be used to purchase additional **dividend shares**.

> *"the participant is a shareholder and can benefit from dividends and other rights from the date of the award"*

What is the tax treatment of shares acquired under a SIP?

All shares within a SIP can be removed free of income tax and National Insurance Contributions (**NICs**) if they have been held in the SIP for at least five years (three years in the case of dividend shares). If the employee chooses to take free and matching shares out of the SIP before the end of the five year period but after three years, income tax and (in most cases) NICs are payable on the market value of the shares when they were awarded or, if lower, their market value on removal from the SIP. Partnership shares withdrawn within this timeframe are subject to income tax and NICs on the lower of the salary used to buy the shares and their market value when they are removed.

Free, matching or partnership shares leaving the SIP trust within three years are subject to income tax and NICs on the market value of the shares when they are taken out of the trust. Dividend shares taken out the SIP trust within three years will give rise to income tax on the dividend originally used to purchase them. Shares that cease to be subject to the SIP in prescribed 'good leaver' circumstances or on certain changes in control do not give rise to an income tax or NICs charge.

Employees will only be liable to capital gains tax to the extent that their shares have increased in value since they were taken out of the SIP trust.

What does a company need to do in order to establish a SIP?

There are conditions that need to be met to establish a SIP. In particular, the company whose shares are to be used must not be controlled by an unlisted company unless it is, itself, listed.

A UK resident trust needs to be established to operate the SIP. The trustee can be a subsidiary of the company or an independent trustee. Board resolutions will and shareholder and/or banking approval may also be required. It is usual to 'market' a SIP to employees in advance and the lead-in time is therefore longer than for most other share plans.

"It is usual to 'market' a SIP to employees in advance and the lead-in time is therefore longer"

The company must register the SIP with HM Revenue & Customs (**HMRC**) online and certify that it meets the relevant statutory conditions. Annual online returns must also be filed with HMRC in respect of the SIP.

FOR FURTHER INFORMATION ABOUT SIPS PLEASE CONTACT

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