ACTIVE PRACTICE UPDATES

NOVEMBER 2015

Business UPDATE

KNIGHT & COMPANY
chartered accountants

Choosing an employee share scheme

A guide to the advantages, potential problems and types of share schemes available to employees.

The number of businesses that offer employee share schemes has doubled since 2000, according to HMRC.

Giving employees the chance to invest in their company can help an employer improve retention, attract staff and raise funds. For employees, there's the opportunity to save money in a tax-efficient way.

Schemes are split into 2 categories: approved and unapproved. Government approved schemes have tax and national insurance benefits for employees. As a result, these schemes are some of the most common.

Each scheme has its own rules, eligibility and tax treatment. This means there is a great deal of choice and flexibility so with careful research employers can find a scheme that suits their needs. Schemes are not mutually exclusive so it is possible to offer more than one.

If you are thinking about joining the 12,000 other employers who offer a scheme to their staff, here are details of the 4 approved schemes.

Save as you earn

Save as you earn (SAYE) schemes allow employees to purchase shares in their employer for a set price. This can be up to 20% less than the current share price.

Employees can save up to £500 a month over a set term of either 3 or 5 years. The money is deducted through payroll from net earnings so there is not a tax saving at the point of purchase.

Employees have 6 months from the end of the term to decide whether to:

1. get their money back as cash, plus interest and a bonus (though the current bonus rate set by the government is 0%)
2. use their savings to buy the shares
3. buy the shares and then immediately sell them.

The tax treatment depends on what the employee chooses to do at the end of the term:

1. for those that decide to take cash, the interest and any bonus are tax free
2. there's no income tax or national insurance due on the difference between what employees pay for shares and what they are worth
3. employees can avoid paying capital gains tax (on gains of more than £11,100 for 2015/16) when they sell the shares by transferring them into a pension or ISA within 90 days. The annual capital gains allowance applies to any profits on shares that are bought and then sold without being placed into an ISA or pension.

Choosing an employee share scheme

Employers can set a qualifying period of up to 5 years of employment before an employee can join the scheme.

However, beyond this SAYE schemes are open to all qualifying employees and directors, so might not be suitable for companies that want to restrict access.

Talk to our team about SAYE schemes.

Share incentive plans

There are 4 ways an employee can receive shares under a share incentive plan (SIP):

1. employers can offer £3,600 of free shares to employees a year
2. employees can buy partnership shares worth 10% of their salary or £1,800 (whichever is lower) a year
3. employers can provide 2 matching shares for each partnership share
4. depending on the rules of the scheme, employees may be able to use any dividends from their shares to buy more shares.

Companies can offer various combinations of these types of shares to employees.

Excluding purchasing shares from dividends, employees can save a maximum of £9,000 a year through SIPs.

Shares are deducted from gross salary so employees who participate will not pay income tax or national insurance on their shares.

There's no tax or national insurance due on shares that are held in a SIP for at least 5 years.

Shares are free from capital gains tax if they are within a SIP when they are sold. They lose this privilege if the shareholder takes them out of the SIP and later decides to sell them.

SIPs must be offered to all employees on similar terms although anyone who already controls more than 25% of the company is excluded.

However, employers can place conditions on issuing free shares such as performance, length or service, remuneration or working hours.

We can tell you more about SIPs.

Company share option plans

Company share option plans (CSOPs) differ from other approved share schemes in that they allow employees to buy up to £30,000 of options to acquire shares at a fixed price rather than shares themselves. Companies can choose which employees and directors it allows to participate.

There are restrictions placed upon which kinds of companies can offer CSOPs to their employees.

Like shares held in other approved schemes, there's no tax or national insurance on the difference between how much an employee paid for a share and the value, provided certain conditions are met:

- there are 3 and 10 years between the option being granted and being exercised
- the scheme is still approved by HMRC when the options are exercised
- the options are exercised according to the rules of the scheme.

There may be capital gains tax to pay when the shares are sold.

If you want to know more about CSOPs, call us today.

Enterprise management incentives

Companies with assets of £30 million or less may be able to offer enterprise management incentives (EMI).

However, companies that work in 'excluded activities' cannot offer EMIs. These include:

- farming
- banking
- property development.

EMIs allow selected employees to buy shares up to £250,000 over a set period.

For the employee there's no tax or national insurance on the increase in the value of shares.

Although as with other approved schemes, capital gains tax might be due when the shares are sold.

Companies have to notify HMRC within 92 days of granting an EMI option and also have to report details to HMRC each year.

Talk to us about offering an employee share scheme.