



Share Incentive Plans

The right share scheme for your business can improve employee commitment and motivation, which in turn can enhance company performance and growth.

A Share Incentive Plan (SIP) may be an appropriate vehicle for larger employers looking to involve their whole workforce in share participation.

What is a SIP?

A SIP is an HM Revenue & Customs (HMRC) approved plan under which all UK resident employees must be eligible to participate. A SIP creates immediate employee shareholders, whose risks and rewards of share ownership match those experienced by other shareholders.

The plan is operated through a UK resident trust. The trust buys shares that can subsequently be awarded to employees in the following ways:

- Employers can give £3,600 worth of free shares per tax year to each employee.
- Employees can buy 'partnership shares' from pre-tax salary up to a value of £1,800 per year or 10% of their income for that tax year, whichever is lower.
- Employers may also offer employees up to two free 'matching shares' for each partnership share bought.

- In addition, dividends paid on any of these shares can be paid as 'dividend shares' instead of as cash (up to a maximum of £1,800 per annum), in which case they will not be subject to income tax.

The tax and National Insurance treatment depends on the period the shares are kept in the plan and are summarised in the table below. If the shares are kept in the plan for five years no income tax or National Insurance is payable.

Advantages

- Very tax efficient for the employee. As well as income tax and National Insurance savings on acquisition, there may be no capital gains tax payable by the employee if shares remain in the SIP trust until the point of sale. There is also an employer National Insurance saving on salary used to acquire partnership shares.
- The employing company should be able to claim a deduction against corporation tax for the market value of free and matching shares provided, as well as the costs of implementing and administering the plan.
- Awards of free shares can be linked to achievement of performance conditions, which can be company-wide or specific to a business unit.
- Encourages long-term employee participation in the business and alignment of employee and corporate interests, particularly where employees invest their own money in buying partnership shares.

Type of share	Withdrawn from SIP during first three years*	Withdrawn from SIP between three and five years	Withdrawn from SIP after five years
Free or matching shares	Income tax on market value of shares as at date of withdrawal	Income tax on the lower of the market value of shares as at acquisition or withdrawal	No income tax liability
Partnership shares	Income tax on market value of shares as at date of withdrawal	Income tax on the lower of the gross earnings used to acquire shares or the market value of shares as at date of withdrawal	No income tax liability
Dividend shares	Dividends used to buy shares are taxed as a dividend in the year those shares are withdrawn	No income tax liability	No income tax liability

* where 'good leaver' clauses apply or the company is sold for cash before three years there may still be no income tax liability.

Disadvantages

- All eligible employees must be invited to participate and must do so on essentially the same terms, which can limit the ability to vary awards based on performance. The SIP only allows for up to £10,800 of shares to be allocated to any employee in a tax year.
- Costs of administration and implementation may be prohibitive for smaller employers and will need to include the ongoing maintenance and funding of the trust.

Most suitable

Larger employers and those seeking to align the interests of all employees with corporate objectives over the medium/long-term.

As employees are able to acquire partnership shares from pre-tax salary and be awarded free shares without income tax applying, there can still be significant value for participating employees even where the share value does not increase substantially over the holding period.

Adam Kay, Partner
T: +44 (0)20 7841 4291
E: adam.kay@saffery.com

This factsheet is based on law and HMRC practice at 1 October 2019.

This factsheet is published on a general basis for information only. It does not constitute, and should not be construed as, investment advice nor a recommendation to subscribe to, purchase, sell or otherwise transact in any security or financial instrument. No liability is accepted for errors of fact or opinion it may contain. Professional advice should always be obtained before applying the information to particular circumstances. Views expressed by external parties in this document are their own, and do not necessarily reflect those of Saffery LLP. J65428. © Saffery LLP February 2022. Saffery LLP is a limited liability partnership registered in England and Wales under number OC415438 with its registered office at 71 Queen Victoria Street, London EC4V 4BE. The term “partner” is used to refer to a member of Saffery LLP. Saffery LLP is regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales. J10030

Saffery LLP is a member of Nexia a leading, global network of independent accounting and consulting firms. Nexia International Limited and each member firm are separate and independent legal entities, each of which is responsible for its own acts, omissions or liabilities and not those of any other member of the Nexia network. Please see <https://nexia.com/member-firm-disclaimer/> for further details.