

INCOME TAX: SHARE SCHEMES

Share schemes offer companies the opportunity to motivate employees by providing them with an equity stake in the business. Typically, employees are given an option to purchase shares on favourable terms.

Historically, HM Revenue & Customs (HMRC) would approve schemes subject to their meeting certain qualifying conditions. From 6 April 2014 there will be a self-certification process.

Unapproved schemes do not have the same tax advantages as approved schemes.

Scheme	Tax advantages
<p>Share incentive plan Employees provided with a limited number of free shares via trust</p> <ul style="list-style-type: none"> • No preferential treatment for directors or other more highly paid employees. • The company can give employees shares worth up to £3,600 per year. • Employees may buy additional shares (up to the lower of 10% of salary or £1,800) out of gross earnings, thereby saving PAYE and NICs. • Employer can match any purchased shares on a 2 for 1 basis. 	<ul style="list-style-type: none"> • There is no Income Tax or NIC charge when the shares are awarded to the employee. • Employees who keep their shares in the plan for five years pay no Income Tax or NICs when those shares are withdrawn. • Employees withdrawing shares within five years as a result of leaving the company ('good leavers') will pay no Income Tax or NICs. • Shares held in the plan enjoy tax free growth, once withdrawn they become subject to the normal Capital Gains Tax (CGT) rules.
<p>Enterprise Management Incentive (EMI) Scheme allows employers to grant qualifying options to employees.</p> <ul style="list-style-type: none"> • The options do not have to be offered to every employee and can therefore be tailored to certain individuals. • No employee can have unexercised options worth more than £250,000 (based on market value at the time options are granted). • The total value of unexercised options for all employees must not exceed £3 million. 	<ul style="list-style-type: none"> • There is no tax charge when the options are granted to the employee. • The scheme does not need formal HMRC approval and is more flexible than approved company share option schemes.
<p>Approved company share option scheme The company can provide options to selected directors and employees on shares up to a value of £30,000 on the date of grant.</p> <ul style="list-style-type: none"> • Participation of the scheme is not open to people who own over 30% of the company. 	<ul style="list-style-type: none"> • Income Tax is not charged on grant or at the time of exercise subject to meeting certain conditions. • Beneficial for companies that do not qualify for the EMI scheme.
<p>Approved savings-related share option scheme Employees are granted options to acquire shares linked to a Save As You Earn (SAYE) contract of up to £500 a month.</p> <ul style="list-style-type: none"> • All employees and directors must be eligible to participate on similar terms. • Options are exercised once the employee has accumulated enough funds under the contract. 	<ul style="list-style-type: none"> • Income Tax is not charged on grant.
<p>Employee shareholder status Employees have different employee rights subject to holding shares worth a minimum of £2,000.</p> <ul style="list-style-type: none"> • Employees are deemed to have paid for the first £2,000 of shares received. • Available from 1 September 2013. 	<ul style="list-style-type: none"> • Gains on up to £50,000 of qualifying shares will be exempt from CGT. • The first £2,000 of share value received will be free from Income Tax and NICs.

This factsheet contains general advice only based on our understanding of current legislation. It should not be relied on as a basis for any decision or action. Professional advice specific to the situation should always be obtained.