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FOCUS ON

Save As You Earn

A HM Revenue & Customs (HMRC) approved 'Save As You Earn' (SAYE or Sharesave) scheme is a savings-related share option scheme – where employees are given 'share options' through which they can only buy the shares using amounts they have saved under a special Save As You Earn (SAYE) savings contract.

SAYE schemes

A SAYE share option scheme is a scheme, set up by an employer, under which an employee may be given a 'share option' - a right to buy a certain number of shares at a fixed price at a particular time. The employee can only buy the shares using amounts they have saved under a special Save As You Earn (SAYE) savings contract.

This scheme allows employees to save between £5 and £500 per month for three orfive years with a building society or bank. Employees get a tax-free bonus if they complete the savings plan.

In a SAYE share option scheme, the price of the shares is fixed at the time the option is granted. The option price can be discounted by up to 20% of the market value of the shares at that time.

At the end of the period, employees choose either to use the money saved, plus the bonus and interest, to buy shares in their business – which they will usually do if the value of the company's shares increases - or to have their contributions returned.

SAYE scheme conditions

A SAYE share option scheme must be available to all employees – although the employer may set an eligibility period relating to how long an employee has worked for the business, up to a maximum of five years' service.

If the scheme meets certain requirements HMRC will approve it. Tax advantages are available in relation to the share options received under an approved scheme.

The main requirements for a scheme to be approved concern:

- who can be granted options under the scheme
- all employees being able to take part in the scheme on similar terms
- the sort of shares that can be used in the scheme
- the fixed price of the shares under an option
- the set period of time for exercising an option to buy shares
- using only savings under a special savings contract to buy the shares

The interest and any bonus receivable at the end of the savings scheme is received free of income tax and National Insurance contributions

No Income Tax or NICs is payable on the grant of SAYE options.

The interest and any bonus receivable at the end of the savings scheme is received free of income tax and National Insurance contributions (NICs).

No income tax or NICs is payable on the difference between the amount paid for the shares when the option is exercised and what they're actually worth.

Capital Gains Tax may be payable when the shares are sold - but not if the shares are put into an ISA or a pension as soon as they are bought.

Costs of setting up approved schemes

The costs incurred by companies in setting up approved schemes are allowable as a deduction in computing the company's profits for corporation tax purposes.
HMRC approval

An application for approval has to be made in writing by the company setting up the scheme. To seek approval of a scheme, companies have to provide certain information including a set of the final scheme rules, the documents which may be issued to those participating in the scheme, and the resolution adopting the scheme.

HMRC approval must be obtained before SAYE options are granted.

Share Valuations

The market value of unquoted shares will normally be negotiated between the employer and HMRC Shares and Assets Valuation on each occasion before the relevant options are granted.

Contact us

For further information on SAYE option schemes or share incentives generally, please speak to your usual MHA MacIntyre Hudson tax contact or Chris Blundell (020 7429 4177 and chris.blundell@mhllp.co.uk) who heads up our Equity Incentives Group.

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