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FOCUS ON

Share Incentive Plans

Share Incentive Plans (SIPs) are tax and National Insurance contributions (NICs) advantaged plans that help employers to encourage employees to hold shares in the company they work for.

Under a SIP, an employer can give staff up to £3,600 worth of free shares a year. They are the most tax-efficient schemes but they must be open to all eligible employees.

SIP features

There are three main types of plan:

- employers can give staff up to £3,600 worth of free shares a year ('free shares')
- each year, employees can buy a further £1,800 worth of partnership shares from their gross salary, or up to 10% of gross salary, whichever is less ('partnership shares')
- employers can give up to two matching shares for every share the employee buys ('matching shares')

Unimited dividends on shares in the plancan be invested in new shares, provided these are held for a minimum of three years ('dividend shares').

Various combinations of types of plan share can be used, for example, free shares only, or partnership with or without matching shares, or another combination to suit the business needs of the company.

Eligibility and conditions

Both listed and unlisted companies - UK and non-UK - can establish a SIP.

The SIP shares must be ordinary shares in the company – although they may be subject to certain conditions. For example, the shares may have limited or no voting rights.

Whilst the SIP must be open to all employees, an employer may set an eligibility period relating to how long an employee has worked for the business - up to a maximum of 18 months service. And although companies must offer participation to all eligible employees, the employees themselves may of course decide not to take part.

> *"The plan works by keeping the shares in a trust until the employee either leaves their job or decides to take the shares from the plan."*

As well as being able to choose between the four different kinds of plan shares to build a plan that suits its business needs, employers can also include other optional features, such as performance-related awards, forfeiture and holding periods.

Tax advantages of SIPs

Employees who receive free or discounted shares in the company they work for normally have to pay Income Tax and NICs on those shares, because they are part of remuneration. However, employees who take part in a SIP will have the opportunity to pay less or no tax, or NICs, on the shares they acquire under the plan.

Whether an employee will have to pay any tax or NICs on a particular acquisition of shares will depend on a number of factors, including the type of plan shares and how long the shares are held in the plan.

Under a SIP, an employee can purchase partnership shares out of their salary before tax and NICs are deducted, which reduces the amount of salary on which they will have to pay tax and NICs.

There is no tax charge on certain dividends paid on plan shares used to buy further shares ('dividend shares') that remain in the plan for at least three years.

Employers get corporation tax relief for establishing, contributing to and administrating the SIP.

How does a SIP operate?

All shares are held in a trust. Share dividends can also be held in the trust.

The plan works by keeping the shares in a trust until the employee either leaves their job or decides to take the shares from the plan. The shares must be kept in the plan trust for five years to ensure the full tax benefits.
HMRC approval

For a SIP to gain and keep the tax and NICs advantages it must be approved by HM Revenue & Customs.
Contact us

For further information on SIP's or share incentives generally, please speak to your usual MHA MacIntyre Hudson tax contact or Chris Blundell who heads up our Equity Incentives Group.

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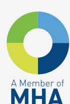

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