
Benefits for the company

In addition to the intended benefits for the company's performance:

- The company doesn't have to pay employer's National Insurance contributions on any pay used by employees to buy Partnership Shares so long as they are then left in trust for the full five years – saving the company up to £128 for every £1,000 invested by employees.
- The cost to the company of providing Free Shares or Matching Shares is deductible against corporation tax.
- Any award of Free Shares may be linked to achievement of performance conditions, which can be company-wide or linked to a particular business unit.
- Free Shares or Matching Shares can be forfeited if employees leave as "bad leavers" (dismissal or voluntary resignation) within three years.

Annual financial limits

Partnership Shares – £1,500 or 10% of salary (whichever is lower).

Free Shares – £3,000.

Matching Shares – up to twice the number of Partnership Shares.

Dividend Shares – £1,500.

SAYE

SAYE options allow UK employees to participate in share options without having to pay income tax or National Insurance (NI) contributions on their option gains.

How do they work?

Imagine that:

- A company wishes to offer each of its employees a share option. This allows them, after a fixed period of time, to buy a fixed number of shares at today's share price (£1.25 per share) or at a discount of up to 20% on that price (£1 per share). The company decides to grant the option with a £1 so-called "exercise" price.
- Each employee will only be granted the option if they agree to save a fixed amount per month for a minimum of three years, so that the total of their savings and interest will provide enough money for them to exercise their option.
- For example – an employee decides to save £100 per month for three years. After three years, this will give them £3,600 plus a tax-free interest bonus of say £190 (the bonus rate is set by HM Treasury), totalling £3,790. The employee is granted an option to buy 3,790 shares.
- Three years later the share price has increased to £2.50. The employee uses those savings to exercise their option in full, paying £3,790 for shares that are now worth £9,475, so making a gain of £5,685. Normally that employee would have to pay income tax and

possibly NI contributions on this £5,685 benefit (even though it may only be a paper gain if they haven't yet sold the shares). However, because the option is granted under an HM Revenue & Customs-approved SAYE scheme, the employee doesn't have to do so.

So is it completely tax-free?

No, if the employee we've just described sells the shares – which they might do either immediately or after some time – they'll then have to pay capital gains tax (CGT) on any gain made up to the point of sale. But it will often be much better to pay CGT than income tax or NI contributions, because:

- There is an additional tax-free slice – £9,600 for 2008-2009.
- CGT is payable at a flat rate of 18%.
- Unlike income tax or NI, CGT is due only when someone sells their shares, and so when they have some cash to pay the tax bill.

What happens if an employee does not want to exercise their option?

There is no obligation to exercise the option that has been granted to them, and it would be unusual to do so where a share price had fallen below the option exercise price. If the option isn't exercised, the employee may simply keep the savings and bonus.

Can a company choose which employees get SAYE options?

No, SAYE is an all-employee plan, so it must invite all employees to participate, or all employees who have worked for the Company for a specified minimum period (which can be set at up to five years).

Are there any limits?

The maximum monthly savings allowed per employee is £250. The savings period can be either three or five years. The option period can be the same as the savings period, or if a five-year savings period is chosen the option period can be extended to seven years. In all cases, the option can be exercised within six months of the end of the option period.

What happens to leavers?

Any employee who leaves due to redundancy, injury, disability or retirement must be allowed to exercise a proportion of their options – linked to the amount saved so far and any accrued interest. Any option gains are not subject to income tax or National Insurance.

Benefits for the company

Apart from the potential business benefits of a carefully designed SAYE plan – like employee motivation, creating a sense of ownership and commitment – there is also a tax advantage for the company. Any gains enjoyed by employees can be treated as an expense of the employer company for corporation tax purposes.