
E. Appendices

Share Incentive Plan

Under the Share Incentive Plan (SIP), employees can obtain shares in three main ways:

- **Purchase** – employees may buy Partnership Shares out of their gross pay, with full income tax relief. For example, an employee investing £1000 of their pre-tax pay in shares in their employer company won't have income tax or National Insurance deducted, so they'll have shares worth £1,000 allocated to them. If instead they simply took that £1,000 as part of their normal pay, they'd receive a cash amount after deduction of tax and National Insurance.
- **Free** – employees may be allocated Free Shares, without having to pay income tax or National Insurance on the shares' value.
- **Matching** – employees may be allocated up to two Matching Shares free for every one Partnership Share they agree to buy – again without being required to pay income tax or National Insurance on their value.

Also, dividends paid on any of these shares can be paid as additional shares (Dividend shares) instead of as cash, in which case they won't be subject to income tax.

When and how are the shares allocated?

- **Partnership Shares:** can be allocated just once, once a year, or every month. Alternatively, employees can have Partnership Share money deducted from their pay once a month for up to twelve months (an Accumulation Period). This money is then used to buy Partnership Shares at the lower of share value at the beginning and end of that period. This transfers the risk of downward share price movement over that period from employees to the company.
- **Free Shares:** can be allocated whenever the company wishes, so long as within the annual limits (see below).
- **Matching Shares:** will be allocated at the same time as the Partnership Shares to which they relate. They must always be purchased by a SIP trust – using each employee's money if they are Partnership Shares or the company's money if they are Free Shares or Matching Shares – then immediately allocated to the names of participating employees.

Are there any conditions?

- It's an all employee plan, so everyone must be invited to participate, although the company can require employees to have worked for at least (broadly) eighteen months.
- Any shares allocated to employees must be held on their behalf in a special SIP trust – normally for five years to ensure the income tax reliefs.

There are several other conditions, including strict rules as to the type of shares that may be used, and a rule preventing a SIP being used to allocate shares in a subsidiary.

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