EQUITY
INCENTIVES
LIMITED

Share Incentive Plan (SIP)

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What is SIP?

SIP is a new type of share incentive intended to help companies reward, motivate and retain employees.

What are the main benefits of SIP?

- You can allocate *free* shares according to your chosen performance criteria.
- Share *purchase* is tax-deductible.
- Any growth in the value of shares is free of capital gains tax.

How can shares be made available to employees?

You can make shares available in three ways:

- Free shares;
- Partnership shares (which an employee must pay for);
- Matching shares (free shares linked to the number of partnership shares purchased by an employee).

You can allocate free shares to employees based on any performance criteria you choose, but these must be based on **objective criteria** and **clearly communicated to employees**.

What is the maximum limit of shares that can be awarded?

- Free shares: limit of £3,000 p.a. per employee, regardless of salary.
- Partnership shares: maximum annual value is £1,500 pa, or 10% of salary, whichever is less.
- Matching shares: two can be allocated for every partnership share purchased. Therefore, the maximum annual value is £3,000 p.a., assuming an employee buys £1,500 partnership shares.

How can shares be allocated to employees?

- Free shares: can be allocated on "same terms" (equally or according to salary, length of service and/or hours worked), or subject to performance targets under one of the two following methods:
    - *Either* 20% or more of the pool of shares to be distributed to all employees on similar terms, the remainder to be paid out to some or all subject to individual, team or corporate performance targets; *or*
    - All shares to be awarded by reference to performance, provided that if these targets are reached shares are allocated on similar terms within that performance unit.
- Partnership shares: employees can buy shares out of pre PAYE and pre NI salary. Deductions from salary can be saved for up to 12 months, at which point employees may choose to purchase shares with the proceeds. Alternatively, shares may be purchased monthly.
- Matching shares: must be offered to employees only according to how many partnership shares they have bought.

Once shares are allocated to employees, they must then be held in trust if the full tax benefits are to be enjoyed.

What are the tax consequences?

- All shares: employees will pay **no income tax or NI** on shares which they have purchased or been given, providing that they leave their shares in the SIP for **at least five years**.

- Free shares: shares withdrawn before end of minimum 3 year holding period are subject to income tax and NI on the value of the shares at the date of withdrawal. Shares withdrawn between 3 and 5 years are subject to income tax and NI on the lesser of market value on date of award and market value on date of withdrawal.

- Partnership and matching shares: There is no minimum holding period and shares may be withdrawn at any time. Shares withdrawn before 3 years are subject to income tax and NI on the market value of the shares at the date they are taken out of the plan. Shares withdrawn between three and five years are subject to income tax and NI on the lesser of salary used to buy the shares and market value at the date they are withdrawn.

- Any growth in share value while the shares are within the SIP is not subject to capital gains tax.

What types of shares can be used?

- Shares must be fully paid-up, non-redeemable, listed or in a company not under the control of another company.

- A special class of shares may be created for use in the plan.

- Free and matching shares can be forfeit if the employee leaves the company.

- While plan shares may be subject to some restrictions, e.g. they may be non-voting, other restrictions, such as limitations on share transfers, may not be permitted.

What else should I know about SIP?

- Where dividends are invested to purchase more shares, they will be income tax and NI free, and there is no holding period for shares acquired in this way.

- A qualifying period of up to eighteen months can be set for employees to be able to participate.

- Any person holding 25% or more of the company's equity will not be allowed to participate.

- The cost of setting up the plan is deductible against corporation tax.

- Employees taking part in an approved profit sharing scheme may not participate in this plan in the same year.

Who are we?

Equity Incentives has substantial experience in all aspects of employee benefits, including equity incentives. The Managing Director, Graeme Nuttall, is a member of the HM Treasury advisory group which helps the Inland Revenue introduce new share schemes including EMI and SIP. Through membership of the **Global reward plan group** we implement international share schemes.

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