Share Incentive Plans

Share Incentive Plans (SIP) are HMRC approved 'all employee' share schemes that aim to provide benefits to employees by way of shares to give them a continuing stake in the company they work for.

• A SIP comprises a Trust Deed and Rules and is operated and administered by trustees. The trustees acquire shares in the company that has established the scheme and hold them for the benefit of employees who participate in the scheme.

• SIPs are governed by schedule 2 of the Income Tax (Earnings and Pensions) Act 2003 and require formal approval from HMRC.

• All employees must be offered the chance to participate subject to a qualifying service period of up to 18 months. Employees are debarred from participation if they have a 'material interest' in the company that has established the plan. (basically an interest of 25% or greater in the company counting together shares held by that employee and any associates of that employee).

• There are four distinct elements that may be contained within a SIP:

A. Free Shares.
Trustees may appropriate 'free shares' up to £3600 in value in each tax year to each employee. Free shares must generally be allocated to eligible employees on a 'similar terms' basis meaning that the entitlement of each individual may vary according to remuneration, length of service, or hours worked but cannot be subject to criteria which are otherwise discretionary;

B. Partnership Shares.
Employees may be invited to purchase shares worth up to £1800 or 10% of their salary (whichever is lower) per year by deduction from salary. The deductions are taken from gross pay, before tax and national insurance contributions, thus providing an immediate saving on the cost of the shares;

C. Matching Shares.
The trustees of the SIP scheme may match the acquisition of Partnership Shares with up to 2 additional or 'matching shares' for every share purchased, up to £3600 worth of shares each tax year;

D. Dividend Shares.
Employees can reinvest each year up to £1800 out of dividends paid on shares held for them under the plan on a tax-free basis.

• SIPs are tax advantaged. This means that individual participants are not liable for income tax or national insurance contributions (NICs) that would otherwise arise on the value of shares that they acquire through the scheme as long as the shares remain in the plan for 5 years. Partnership Shares are also similarly tax exempt.

• If free, matching or partnership shares are withdrawn from the plan by the participant during the first 3 years after the award or purchase, income tax will be payable on the market value of the shares when they are taken out of the plan.

• If free, matching or partnership shares are withdrawn from the plan by the participant between 3 and 5 years after the award or purchase, income tax will be payable on the lower market value of the shares at the time (a) they were awarded/purchased, or (b) they are taken out of the plan.

• If dividend shares are withdrawn from the plan by the participant during the first 3 years after the purchase, income tax will be payable on the dividends used to purchase the shares by reference to the year when the shares are taken out of the plan. There is no income tax or NIC charges when shares are taken out of the plan after 3 or more years from the time of purchase.

• A participant in a SIP whose employment ceases is then obliged to withdraw all his/her plan shares from the SIP. This may trigger an income tax and national insurance contributions charge, unless the participant is deemed a 'good leaver' (see below).

• If a participants' employment ceases due to:

- o Redundancy;
- o Injury or disability;
- o Transfer of undertakings regulation (i.e. upon a sale of a business);
- o Change of control of company (i.e. sale of a group company outside the control of the company that established the plan);
- o Retirement;~
- o Death in service

the participant will be deemed as a 'good leaver' under SIP legislation and there will be no income tax on national insurance contribution charges on shares withdrawn from the SIP.

• If a participant leaves employment for any reason (other than listed above) within a period (of up to 3 years) the plan can be designed to forfeit any 'free' or 'matching' shares that have been awarded.

• The shares to be used for the purpose of a SIP must be fully paid, non-redeemable ordinary shares. The shares also must not be subject to any restriction other than restrictions affecting all ordinary shares in the company

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