

Pre-Budget Report: Impact on employee schemes

We set out below the impact of the changes announced in Chancellor's Pre-Budget Report on 9 October 2007, taking into account the announcement on 24 January 2008 of the introduction of Entrepreneurs' Relief. This compares the current capital gains tax (CGT) treatment (for disposals up to 5 April 2008) and the proposed new treatment after that date.

Please note that in relation to shares acquired under any of the arrangements described below, the current CGT treatment will apply to disposals of those shares up to 5 April 2008:

	Current CGT treatment	Proposed new CGT treatment
EMI options	<p>Taper relief may reduce the taxable amount by 50% (for share disposals one year or more after <i>option grant</i>) and by 75% (for share disposals two years or more after <i>option grant</i>). For a higher rate taxpayer, this means CGT rates of 20% or 10%</p> <p>Annual exemption also applies.</p>	<p><i>Basic position</i></p> <p>Removal of taper relief will mean that a standard CGT rate of 18% applies, whatever the period between option grant and disposal of the shares.</p> <p><i>Entrepreneurs' relief</i></p> <p>However, in limited cases a 10% rate will apply on the first £1m of gains where conditions are met*.</p> <p>In both cases, annual exemption will continue.</p>
CSOP options	<p>Taper relief may reduce the taxable amount by 50% (for share disposals one year or more after <i>option exercise</i>) and by 75% (for share disposals two years or more after <i>option exercise</i>). For a higher rate taxpayer, this means CGT rates of 20% or 10%</p> <p>Annual exemption also applies.</p>	<p><i>Basic position</i></p> <p>Removal of taper relief will mean that a standard CGT rate of 18% applies, whatever the period between option exercise and disposal of the shares.</p> <p>This will be an improvement for many CSOP participants who are higher rate taxpayers, as an immediate disposal of shares following exercise of a CSOP option (as often happens on a sale of a company) will now attract CGT at 18% instead of 40%.</p> <p><i>Entrepreneurs' relief</i></p> <p>However, in limited cases a 10% rate will apply on the first £1m of gains where conditions are met*.</p> <p>In both cases, annual exemption will continue.</p>
SAYE options	<p>Taper relief may reduce the taxable amount by 50% (for share disposals one year or more after <i>option exercise</i>) and by 75% (for share disposals two years or more after <i>option exercise</i>). For a higher rate taxpayer, this means CGT rates of 20% or 10%</p> <p>Annual exemption also applies.</p>	<p><i>Basic position</i></p> <p>Removal of taper relief will mean that a standard CGT rate of 18% applies, whatever the period between option exercise and disposal of the shares.</p> <p>This will be an improvement for participants making high levels of capital gain, as an immediate disposal of shares following exercise of a SAYE option (as often happens on a sale of a company) will now attract CGT at 18% instead of 40%.</p> <p><i>Entrepreneurs' relief</i></p> <p>However, in limited cases a 10% rate will apply on the first £1m of gains where conditions are met*.</p>

* shares have been held by an employee or director at least one year between option exercise and sale, and that person held at least 5% of the company, with at least 5% voting rights

In both cases, annual exemption will continue.

Share Incentive Plan (SIP)

No CGT whilst shares are held in SIP

No material impact.

Shares beneficially owned

Taper relief may reduce the taxable amount by 50% (for share disposals one year or more after shares acquired) and by 75% (for share disposals two years or more after shares acquired)

Basic position

Removal of taper relief will mean that a standard CGT rate of **18%** applies, whatever the period between acquisition and disposal of the shares.

Annual exemption also apply.

This will be an improvement for many participants, as a disposal of shares will now attract CGT at **18%** instead of 40%. An advantage is that a lower rate of tax is available without having to own shares for any period before disposal. A disadvantage is that the lowest rate of CGT will be 18% rather than 10%.

For restricted shares, part of growth may also be subject to income tax and National Insurance unless the holder and the company have elected to pay income tax upfront on any discount resulting from the restrictions.

Entrepreneurs' relief

However, in limited cases a **10%** rate will apply on the first £1m of gains where conditions are met*.

In both cases, annual exemption will continue.

Non-approved options

Gains are subject to income tax and National Insurance, not CGT

No change to tax on option gains when options are exercised.

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