

JUST ADD ONE P: Motivating Your Employees AND Boosting their Retirement Savings post A-Day

If you would like to do this in your company, you might like to look at the Revenue-approved **Share Incentive Plan (SIP)**, under which your employees can acquire shares in the company and then later place them in a Registered Pension Plan, enjoying full tax relief at not just one, but both stages.

From SIP...

Employees can purchase or be given shares, in either case with **full tax relief**. They must normally then be held in the SIP for five years.

...to SIPP

After five years, each employee can sell (free of capital gains tax) or transfer their shares to a Registered Pension Plan or an ISA.

If those shares are transferred from the SIP to a SIPP or other Registered Pension Plan, the employee is given **further income tax relief** on the shares' value at that time. The shares can then be retained in the plan or the investment diversified.

...Just Add One P!

Illustration

Assumptions:

- Abby has the choice of contributing £1,000 (net of tax) to a SIP or a Registered Pension Plan (RPP).
- The investment chosen grows in value by 40% over five years
- Abby stays working for her company for five years, then the SIP shares are transferred to a Registered Pension Plan
- She is a higher rate taxpayer
- The tax relieved on the amount transferred to the Pension Plan is invested in the Pension Plan

About the SIP

Created by Gordon Brown in 2000 to encourage growth of employee share ownership in UK companies, the SIP's objective is to help productivity growth by linking employee reward to business performance.

Any contribution by a company to its SIP is fully corporation tax deductible, and shareholders who sell to the SIP can defer indefinitely any liability to capital gains tax – in each case so long as it has at least 10% of the company's shares.

From A-Day further tax relief is available, allowing the value of shares transferred from SIPs to Registered Pension Plans to be treated as a fully deductible against income tax.

Altogether, the SIP now positively bristles with tax incentives. *It is worth exploring if you like the idea of rewarding employees for longer term performance - all the more so if you also see merit in offering your staff an unusually tax advantaged entry into long term investment.*

Unlike *SAYE options*, the SIP creates immediate employee shareholders, who may have the same rights to dividends and voting as the other members of your company. Because real share ownership starts on day one, but employees can't normally sell for five years, you should consider the SIP if you want the risks and rewards for your employees to match most closely those experienced by other shareholders.

How does it work?

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 will not have income tax or National Insurance deducted, so they will have shares worth £1,000 allocated to them. If instead they simply take that £1,000 as part of their normal pay, they would receive a cash amount after deduction of tax and National Insurance
- **Free** – employees may be allocated *Free Shares*, without being required to pay income tax or National Insurance on their 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.

Plan	Cash contributed before tax relief	Cash contributed with tax relief	Value five years later	Tax relief on transfer to RPP	Total value of investment after transfer to RPP
SIP	1000	1667	2334	1557	3891
RPP	1000	1667	2334	Nil	2334

When and how are the shares allocated?

When?

- **Partnership Shares** can be allocated just once, or once a year, or every month. Or instead, you could allow your employees to have Partnership Share money deducted from their pay once a month for up to twelve months (an *Accumulation Period*), 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 you wish, so long as within the annual limits (see over).
- **Matching Shares** will be allocated at the same time as the Partnership Shares to which they relate.

How?

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 you can require employees to have worked in your company 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.

Are there any benefits for my company?

Yes, in addition to the intended positive benefits on your company’s performance:

- Your company doesn’t have to pay employer National Insurance on any pay used by employees to buy **Partnership Shares** so long as they are then left in trust for the full five years, so **saving your company up to £128 for every £1,000 invested by employees**
- The cost to your 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 forfeit if employees leave as “bad leavers” (dismissal or voluntary resignation) within three years.

Are there any financial limits?

Yes, the following annual limits apply for each employee:

<i>Partnership Shares</i> - £1,500 or 10% of salary (whichever is lower)	<i>Free Shares</i> - £3,000
<i>Matching Shares</i> - up to twice the number of Partnership Shares	<i>Dividend Shares</i> - £1,500

Is a SIP suitable for my company?

Free Shares and **Matching Shares** can be a powerful way of fostering staff retention, through the ability to forfeit them where employees leave as “bad leavers”.

Where awards of **Free Shares** are linked to achievement of a performance target, they can be a strong performance incentive.

Partnership Shares are purchased by employees with their own funds, so are often seen as the best way of aligning employees’ and other shareholders’ interests. Take up rates of Partnership Shares are likely to increase where Matching Shares are offered.

Is there anything else I need to know?

Yes, there is more information you’ll need to understand before deciding whether a SIP may be the right solution. This guide is intended to provide a brief overview only.

How do we find out more?

Please contact Robert Postlethwaite
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