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Inspiring. Independent. Trusted.

We work collaboratively with our clients and their advisors to support the implementation and ongoing administration of a diverse range of employee incentive arrangements.

Share Incentive Plans (SIPs)

Working in Partnership with Employers

What is a Share Incentive Plan (SIP)?

A SIP is UK tax-advantaged "all employee" plan available to listed companies and to independent private companies (i.e., those not under the control of another company).

All qualifying employees and directors must be permitted to take part in a SIP on similar terms, though no employee is obliged to participate.

How does an SIP work and what are the award options?

Under the plan the employer can make up to three different types of award to each participant each year:

> **"Free Shares"**: the employee receives shares free of charge with a market value of up to £3,600 at the time of the award

> **"Partnership Shares"**: the employee is permitted to pay up to £1,800 out of his pre-tax earnings to buy shares (in other words, the salary or bonus that he gives up in order to make the payment is not subject to PAYE or National Insurance contributions (NIC))

> **"Matching Shares"**: the employer is permitted to offer the employee an incentive to invest in Partnership Shares by the offer of up to 2 additional free shares for every Partnership share purchased as above.

If any dividends are declared on any of the above shares while they remain in the Plan, those dividends can be either paid out in cash to the employee or reinvested (free of tax) in further "Dividend Shares" in the Plan.

The employer can choose to offer only Free Shares, or only Partnership Shares, or only Partnership and Matching Shares, or any combination of these awards, on any one occasion and can vary the selection offered from year to year.

So the maximum value of shares that an employee may receive each year from an employer who wishes to provide the greatest possible benefit, is £3,600 (in Free Shares) plus £1,800 (in Partnership Shares) and a further £3,600 (in Matching Shares), i.e. a total of £9,000, plus the value of any reinvested dividends.

However, in practice, the majority of employers providing SIPs wish to concentrate the value of shares awarded on those employees who most readily appreciate the value of the offer and who are prepared to invest some of their earnings in order to do so. For that reason, the most common offering is of Partnership and Matching Shares.

The Shares awarded under a SIP are held by trustees of a dedicated UK resident employee benefit trust which must be created for the purpose of the Plan.

Free Shares must be offered to employees on "similar terms", i.e. they can be awarded on a basis which is proportionate to each participant's rate of pay and/or length of service and/or hours worked, but the amount offered cannot be varied by reference to other factors.

The employer is permitted to attach further conditions to Free Shares and Matching Shares:

> The employee may be required to retain them in the Plan for a "holding period" of 3 to 5 years;

> An employee who leaves within a set period which may be up to 3 years may forfeit the shares for no payment;

> The shares may be forfeited if performance conditions for the business (or for the part of the business in which the employee works) are not met.

The main conditions for SIP tax relief are as follows:

This is a brief summary and should not be relied on alone.

> The company whose shares are used must either be listed or not under the control of another company;

> The plan must be registered with HMRC;

> The employer must make annual online returns to HMRC of all relevant events in the plan.

Advantages for the employees:

- No income tax or NIC liability arises on an award of Free or Matching Shares;
- The earnings given up by the employee to buy Partnership Shares is not subject to tax or NIC;
- Provided all shares remain within the Plan for at least 5 years, or, if earlier, until the employee leaves for a "good" reason (injury, disability, redundancy, retirement, etc.), no income tax or NIC liability arises when the shares leave the plan;
- If the employee removes shares from the plan within the first 3 years of the award (and does not forfeit them), income tax and NIC are due on the value of the shares at the time they are taken out;
- If the employee removes the shares from the plan between 3 and 5 years after the award (and does not forfeit them), income tax and NIC are due on the lower of their market value at the date of the award and their market value at the time they are taken out of the plan;
- No income tax is charged on dividends which are reinvested in Dividend Shares;
- The base cost of the shares for capital gains tax purposes is the value of the shares at the time they are removed from the plan, so that all growth in value of the shares held in the Plan is outside the scope of capital gains tax for so long as the Plan continues to qualify;
- HMRC will agree a valuation of the shares in advance of any SIP award so that the employer and employee can have certainty on the tax treatment.

Advantages for the employer:

- On awards of Shares under a SIP, the company will normally benefit from a deduction from its profits for the value of the shares in question in calculating its corporation tax liability, even though the company may not necessarily incur any cash cost in providing the benefit (where, for example, the shares are issued to the SIP trust which pays the subscription cost to the company).
- The employer is entitled to a deduction for corporation tax for the costs of setting up the scheme.

Why Choose Fiduchi?

Working in partnership with you

Independence

As a management-owned business, Fiduchi is well positioned to provide flexible solutions to clients. In addition, our independence allows us to work with the best advisors, and other third parties, for each individual client.

Experience

As a core Fiduchi service, the Employee Incentives team has vast experience helping a broad range of employers achieve their employee attraction, retention and motivation goals through their incentive arrangements.

Personal Service

We believe in the value that a personal approach to client servicing brings. Clients have clear lines of communication with team members who understand their specific requirements.

Scope of Service Offering

With true expertise in each area of our service offering we are uniquely positioned to apply our solutions driven approach to satisfy multiple service requirements in a seamless manner.

Regulation

Services are provided from Jersey and London giving clients the comfort that stable, well regulated jurisdictions, which have been at the forefront of employee incentives servicing for decades, brings. Fiduchi Limited is regulated by the Jersey Financial Services Commission.

If you would like to know more about our Employee Incentives or about Fiduchi, please contact:

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