Save As You Earn – SAYE

A Save As You Earn (SAYE) Option Plan is an all-employee share plan which provides statutory tax relief for employees on their financial gains.

A Save As You Earn (SAYE) Option Plan is an all-employee plan which allows a company's UK employees to acquire shares by first granting them options to acquire shares. A statutory tax relief means that they do not pay income tax or National Insurance (NI) on their gains.

Illustration

- *This year your company wishes to offer each of its employees a share option. This allows them, after a fixed period of time has passed, to buy a fixed number of shares at today's share price (£1.25 per share) or at a discount of up to 20% on that price (£1 per share). The company decides to grant the option with a £1 exercise price;*

- *Employees will only be granted the options if they agree to save a fixed amount per month for a minimum of three years, so that the total of their savings will provide enough money for them to exercise their options;*

- *As an example, one employee decides to save £100 per month for five years. After five years, this will give him £6,000. He is granted an option to buy 6,000 shares for £1 each.*

- *Five years later the share price has increased to £2.50. the employee uses his savings to exercise his option in full, paying £6,000 for shares which are now worth £15,000, so making a gain of £9,000.*

Under an option that was not tax-advantaged, the employee would have to pay income tax and possibly NI on this benefit (even though it may only be a paper gain if he hasn't yet sold the shares). However, because the option is a tax-advantaged SAYE option, he doesn't have to do so.

So is it completely tax free?

Not necessarily. If Justin sells the shares – which he might do either immediately or after some time – he will then have to pay capital gains tax (CGT) on any gain he has made up to the point of sale. But it will often be much better to pay CGT than income tax or NI:

- *there is an additional tax free slice under the CGT annual exemption (£11,100 in 2015-16)*

- *subject to that, a CGT rate of either 18% or 28%, depending on whether the optionholder is a higher rate taxpayer.*

- *unlike income tax or NI, CGT is due only when he sells the shares, and so when he has some cash to pay his tax bill.*

Your company will often be able to claim a deduction against corporation tax for the full amount of an employee's option gains.

What happens if an employee doesn't wish to exercise the option?

There is no obligation to exercise and if the option isn't exercised, the employee may simply keep the savings and bonus.

Can we choose which of our employees are granted SAYE options?

No, SAYE is an all-employee plan, so you must invite all employees to participate, or all employees who have worked for the Company for a specified minimum period (which can be set at up to five years). It is for them to decide whether they wish to accept the invitation.

Is SAYE the only way to have options free of income tax and NI?

No, there are two other option plans providing similar benefits for UK employees, CSOP and EMI. Neither of these are all-employee plans, so you can choose who participates.

Are there any limits?

The maximum monthly savings allowed per employee is £250. The *savings period* can be either three or five years.

The *option period* is the same as the *savings period.* The option can be exercised within six months of the end of the option period.

What happens to leavers?

Any employee who leaves due to redundancy, injury, disability or retirement must be allowed to exercise a proportion of their options linked to the amount saved so far and accrued interest (if any). Any option gains will not be subject to income tax or National Insurance.

Can my company have SAYE?

Most independent companies will be able to meet the requirements of the SAYE legislation, but you will need to look at them carefully – preferably with professional help. Granting SAYE options over shares in a company which is controlled by another is an immediate problem, unless either of the companies is listed.

Shares must be:

- *in a company not controlled by another*
- *ordinary shares, fully paid, not redeemable*

And (if the company has more than one class of share) *either* a majority of the class of shares used must not be held by directors or employees *or* (very unusually) that class of shares must give employees control.

In this table we attach our own ratings for SAYE options for tax efficiency, ease of setting up and overall incentive and reward value:

Save As You Earn (SAYE) options
How it works

Employees are granted options over shares and agree to save a monthly amount from their salary over three or more years. At the end of the savings period, they can either keep the money or use it to exercise their options.

TAX EFFICIENCY (INDIVIDUAL)	TAX EFFICIENCY (COMPANY)	EASE OF SETTING UP	OVERALL INCENTIVE AND REWARD VALUE
★★★★☆ No IT or NICs for certain "good leavers" if options held for at least three years. CGT on sale of shares.	★★★☆☆ CT deduction on option gains.	★★★☆☆ Must be registered with HMRC and self-certified.	★★★★☆ Straightforward to explain, no risk, tax efficient

Other issues

Some companies excluded. Unlikely to be suitable for companies wishing to target rewards to certain people. Maximum discount of 20 % on grant.

If you would like to explore how an employee share scheme might be introduced in your company, please contact us for an initial discussion.

We are happy to meet at our offices without charge or commitment and will be very pleased to hear from you.

Ground Floor, 9 Staple Inn, London WC1V 7QH
T 020 3818 9420 E info@postlethwaiteco.com W www.postlethwaiteco.com