Postlethwaite
EMPLOYEE OWNERSHIP LAWYERS

Save Incentive Plan – SIP

A Share Incentive Plan (SIP) is an all-employee share plan which provides statutory tax relief for employees directly acquiring shares in their company.

The SIP is an all-employee share plan which, unlike SAYE options, creates immediate employee shareholders. Because real share ownership starts on day one, but employees normally can't 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 pre-tax pay in shares in their company will not have income tax or National Insurance deducted, so that shares worth £1,000 will be allocated. If instead the employee simply took that £1,000 as part of normal pay, the cash amount would be received 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.

Income tax relief for employees on salary invested in shares

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.

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 retained for five years, so saving your company up to £138 (based on 2015-16 rates) 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 (and subject to conditions, also Partnership and Dividend 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:

Partnership Shares – £1,800 or 10 % of salary (whichever is lower)	*Free Shares* – £3,600
Matching Shares – up to twice the number of Partnership Shares	*Dividend Shares* – no limit

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.

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 and we recommend more detailed guidance before making a decision.

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

Share Incentive Plan (SIP)
How it works

Employees can purchase shares with full tax relief and/or be given shares free of tax.

TAX EFFICIENCY (INDIVIDUAL)	TAX EFFICIENCY (COMPANY)	EASE OF SETTING UP	OVERALL INCENTIVE AND REWARD VALUE
★★★★★	★★★★★	★★★☆☆	★★★★★
Shares may be purchased out of gross pay. Free shares may be given to participants without income tax (IT) or National Insurance (NICs). No CGT on sales of shares.	Corporation tax (CT) deduction on value of free shares. No NICs on value of free shares or on value of shares purchased by participants.	Must be registered with HMRC and self-certified.	Straightforward to explain, carries risk in relation to shares bought by participants, tax efficient

Other issues

Some companies excluded. Unlikely to be suitable for companies wishing to target rewards to certain people.

- **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.**