

Evaluation of Tax-Advantaged All-Employee Share Schemes: Executive Summary

Authors: Jane Kerr and Clare Tait

Date: September 2008

Prepared for: HM Revenue and Customs

HM Revenue & Customs Research Report

Disclaimer

“The views in this report are the authors’ own and do not necessarily reflect those of HM Revenue & Customs.”

Crown Copyright 2008.

Copyright in the typographical arrangement and design rests with the Crown. The publication may be reproduced free of charge in any format or medium provided that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright with the title and source of the publication specified.

Executive summary

Save As You Earn (SAYE) and Share Incentive Plan (SIP) are all-employee share schemes used by organisations to reward their staff. The schemes must be approved by HM Revenue and Customs (HMRC). Participation in these schemes offers both Income Tax and National Insurance Contribution advantages for the employees participating in them and to the employers offering the scheme.

HMRC commissioned the National Centre for Social Research (NatCen) to carry out this study with employers and employees, in order to assess how these share schemes are operating in organisations and their perceived effects. The study also included interviews with organisations which had never provided either of these share schemes to examine the reasons why this may be so.

Profile of organisations participating in the study

Of the 984 organisations participating in the study, 27 per cent of organisations provided a SIP, 26 per cent of organisations provided a SAYE and ten per cent of organisations provided both a SIP and SAYE. Over a third of organisations participating, 37 per cent, were not providing a SIP or SAYE at the time of the study. Larger organisations were more likely to provide a SAYE or both a SIP and SAYE. Smaller organisations were more likely to provide a SIP or not to offer either of these share schemes. Organisations providing a SAYE or both a SIP and SAYE were more likely to provide other all-employee or discretionary share award schemes (either approved or unapproved) within the organisation compared to organisations providing a SIP and organisations providing neither a SIP nor SAYE.

For organisations that were currently providing a SIP, SAYE, or both, respondents were asked if they would be willing to participate in the employee stage of the survey. Of the 2,253 employees responding, 31 per cent currently participated in a SIP scheme, 25 per cent currently participated in a SAYE scheme and seven per cent currently participated in both a SIP and a SAYE scheme.

Organisations offering a SAYE scheme

Motivations for setting up a scheme

The principal motivations for setting up a SAYE scheme were to enable employees to participate in the ownership of the organisation (34 per cent), and to encourage employees to acquire shares in the organisation (26 per cent). When asked about possible reasons, 81 per cent of employers agreed that increasing employee commitment was a major reason and 74 per cent of employers agreed that increasing employee motivation was a major reason for setting up the SAYE.

Setting up and running the SAYE scheme

The process of setting up the SAYE was contracted out to an external provider in 69 per cent of organisations. The initial proposal to set up the SAYE came most often from the board of directors / management (71 per cent). During the process of setting up, this group was also the most frequently consulted. A qualifying period before an employee could participate in the SAYE was used in over half of organisations (57 per cent).

When queries arose regarding the scheme, 76 per cent of employers consulted an external provider, accountant or consultant, followed by 14 per cent consulting the HMRC website and five per cent using the HMRC helpline. The vast majority of employers were very satisfied or satisfied with the guidance they received from the sources they consulted¹. The administration costs of the scheme in terms of staff time was reported to be minimal by 75 per cent of employers and moderate by 22 per cent.

The majority of the employer respondents found the rules very easy or quite easy to understand (58 per cent and 28 per cent respectively). Only five per cent of respondents found the rules quite or very difficult to understand.

Organisations used a variety of methods to promote the SAYE scheme to employees. For those employees joining the organisation in the last year, the SAYE was publicised in the induction pack for 41 per cent and via the intranet in 34 per cent of organisations. Sending out newsletters and letters was the most frequently used method to promote the SAYE to employees in general, used by 55 per cent of organisations.

Perceived effects of SAYE schemes

Overall, employers reported that the SAYE had a positive effect on the organisation as a whole. The greatest positive effect was reported on relations between the organisation and its employees, with 87 per cent of employers reporting a positive effect in this area. Productivity of the organisation was the one area asked about during the interview where respondents reported a mixed effect, with 51 per cent of respondents reporting a positive effect and 45 per cent of respondents reporting no effect.

Organisations offering a SIP

Motivations for setting up a scheme

The most common reason for setting up a SIP was to enable employees to participate in the ownership of the organisation (30 per cent). When asked about specific reasons for setting up a SIP, the most common major reasons included increasing employee commitment and increasing employee motivation (cited by 79 per cent and 71 per cent of organisations respectively). Just under a third of organisations providing a SIP had another SIP or SAYE in place before providing the SIP (30 per cent).

Setting up and running the SIP scheme

The process of setting up the SIP was contracted out to an external provider in almost two-thirds of organisations (63 per cent). Employers who had set up the scheme in-house were asked about the setting up process. Set-up costs in terms of staff time were reported as moderate by 53 per cent of employers and minimal by 25 per cent of employers.

Partnership shares were used by 75 per cent of organisations and free shares by 57 per cent of organisations. Just under half of the organisations used matching shares (48 per cent) and just under a third used dividend shares (30 per cent). Free shares were more likely to be used in smaller organisations, and partnership shares were more likely to be used in larger organisations.

¹ Please note when referring to the HMRC website or helpline the base of this finding is under 50 cases.

When queries arose regarding the scheme, 72 per cent of respondents consulted an external provider, accountant or consultant, followed by 19 per cent consulting the HMRC website and ten per cent using the HMRC helpline. The vast majority of respondents were either very satisfied or satisfied with the guidance received from these sources². The administration costs of the scheme in terms of staff time was reported to be minimal by 75 per cent of employers and moderate by 23 per cent.

Methods frequently used within organisations to promote a SIP included induction packs, newsletters and letters, the intranet and sending emails to employees.

Perceived effects of SIP schemes

Half (49 per cent) of employers said the SIP had improved the performance of the organisation, with a third (32 per cent) perceiving no improvement. The relationship between the organisation and its employees was cited as the most positive perceived benefit by employers of providing a SIP (82 per cent). The effect of the SIP on the productivity of the organisation was mixed; half of employers perceived the SIP had a positive effect (50 per cent) and just under half of employers perceived the SIP as having no effect (45 per cent).

Organisations with a ceased SAYE or ceased SIP

Although most providers thought the cost of running a SAYE was minimal or no more than moderate, the cost of administering the scheme was given as a reason for ceasing to offer a SAYE scheme by 23 per cent of employers. The organisation offering other types of employee incentives was another common reason for ceasing to offer a SAYE scheme (cited by 22 per cent of employers).

The organisation offering other types of employee incentives was given as a reason for ceasing to provide a SIP by 29 per cent of employers. Dilution of share ownership³ was another more common reason for ceasing to offer a SIP (28 per cent).

Organisations which had never provided a SIP or SAYE

Just under half of organisations which had never provided a SIP or SAYE were aware of the tax and national insurance advantages for employees and the advantages for employers from participating in a SIP or SAYE before taking part in this study (44 per cent and 43 per cent respectively). The perceived degree of complexity of providing such a scheme was reported as the most common reason for not providing a SIP or SAYE (63 per cent of employers). Having too few employees in the organisation that would be interested in such a share scheme and the cost of administering the scheme were also common reasons given for never providing a SIP or SAYE (both 62 per cent of employers).

Comparing SIP and SAYE

This study was intended to look at SIP and SAYE separately rather than providing a comparison of the schemes. However differences between the schemes did become apparent when looking at the

² Please note when referring to the HMRC helpline the base of this finding is under 50 cases.

³ Dilution of share ownership refers to the process where as more shares are issued each share owned by the existing shareholders becomes a smaller percentage of the organisation.

findings. Organisations providing only a SIP tended to find the rules of the scheme more difficult to understand than organisations providing only a SAYE.

Overall, both employers and employees were very positive about the impact SIP and SAYE had had on the organisation and the employees. The greatest positive effect was reported on relations between the organisation and its employees. Organisations providing only a SAYE reported a greater positive impact of providing the scheme on relations between the organisation and employees and employee motivation than organisations providing only a SIP.

Organisations providing a SAYE or both a SIP and SAYE were more likely to provide other share award schemes within the organisation compared to organisations providing only a SIP and organisations providing neither a SIP or SAYE.

Findings from the employee survey

Employees participating in a SIP and/or SAYE

Characteristics of the employee respondents

Compared to non-participants, those employees who participated in a SIP and/or SAYE were more likely to be aged 25 or over (97 per cent compared to 64 per cent). Those employees who participated in a SAYE scheme were more likely to be aged 35 or over (82 per cent) compared to those employees who participated in a SIP scheme (59 per cent). Participants of SIP and/or SAYE schemes were more likely to have been at their organisation for a longer period of time; 97 per cent of participants had been at their organisation for two years or more compared to 67 per cent of non-participants. Nearly two-thirds (62 per cent) of scheme participants had a gross annual income of £26,000 or over compared to under a quarter (23 per cent) of the non-participants.

Reasons for participating in the schemes

The majority of employees participating in SIP or SAYE gave an “Easy way to save” as the most common reason for taking part (94 per cent of SIP participants and 99 per cent of SAYE participants). “A way to make money” was the second most common reason reported by scheme participants (reported by 91 per cent of SIP participants and 96 per cent of SAYE participants). Half of the SAYE participants (50 per cent) had used their cash savings to buy shares in the organisation at the end of a SAYE scheme.

The most common reason for non-participation was not being able to afford to take part (61 per cent of non-participants in SIP providing organisations and 51 per cent in SAYE providing organisations). The second most common reason was that the employee thought they would not make enough money (28 per cent in SIP providing organisations, 26 per cent in SAYE providing organisations).

Effects of SIP and SAYE participation

Six per cent of SIP participants and five per cent of SAYE participants said that the fact the organisation offered a scheme encouraged them to accept the job. Forty-five per cent of SIP participants and nearly half (48 per cent) of the SAYE participants said the provision of the scheme encouraged them to stay at the organisation. Eight in ten SIP and SAYE participants (82 per cent) strongly agreed or agreed that they felt loyal to their organisation, compared to seven in ten non-participants (70 per cent).