

## **NEW ALL-EMPLOYEE SHARE PLAN FINAL REGULATORY IMPACT ASSESSMENT (RIA)**

### **Introduction**

1. This assessment considers the costs and benefits of the new all-employee share plan for introduction in Finance Bill 2000. It is a final version of the drafts previously issued. There have been three draft documents. The technical note "A New All-Employee Share Scheme" published on 9 March 1999 contained the first draft at Annex 4. "A New All-Employee Share Plan: Draft legislation and commentary", published on 10 November 1999 contained the second draft at Annex 1. The most recent draft, "New All-Employee Share Plan: Draft Regulatory Impact Assessment (RIA)" was published on Budget day, 21 March 2000. This RIA considers both tax and National Insurance (NICs) issues in the one document. This final version includes an assessment of the regulatory impact of the Budget day announcements about the future of the existing all-employee share schemes.

### **Purpose and intended effects of the measures**

2. The legislation for the tax measures required for the new plan is being introduced in the 2000 Finance Bill.

3. The Government believes that employee share ownership has an important part to play in the strategy for closing the productivity gap with other countries, such as the US and France. Research evidence suggests that share ownership has a positive effect on employee productivity. The new plan seeks to encourage employers to offer all employees the opportunity to take a stake in their company by providing tax and NICs advantaged share remuneration.

4. The Government wants to double the number of companies in which all employees have the opportunity to hold shares. This sets the Chancellor's target at the involvement of another 1,750 companies.

5. A feature of the new plan is that it enables free shares to be awarded to all employees on the basis of their performance. Employees will also, for the first time, be able to buy shares in their company out of their pre-tax and NICs salary. These are important features that distinguish the new plan from existing approved share schemes. Only the introduction of a brand new, purpose-built plan will meet the Government's aims. Relying on the existing all-employee share schemes alone, or attempting complex changes to the present legislation, would not be effective.

6. The new plan will be an important step forward to meeting the Chancellor's target. Additional measures have been incorporated into the new plan to help smaller and unlisted companies, which lack a market in their shares. Following the consultation on the draft legislation, further improvements have been made to make the proposed measures as attractive as possible to encourage enough small companies to set up a plan to meet the Government's target.

### **Benefits**

7. The direct benefits for the employer will be relief from corporation tax and employers' NICs contributions on shares given or sold to employees through the plan. The direct benefits for the employee will be relief from income tax, employees' NICs and capital gains tax on shares held in the plan.

8. It is possible to estimate the net tax saving after compliance costs to employers of different size by combining the estimated compliance costs (discussed below) with indicative estimates of the value of shares held in the new plan. A plan for 500 employees, 40% of whom receive or invest £1,000 in their employer's shares each year, and who save an average of 40% of income tax and NICs that they would have paid on their salary by holding them in the plan, would generate a net tax and NICs saving after compliance costs of between £40,000 and £60,000 yearly. An equivalent plan for 10,000 employees would generate a net saving of between £1.25 million and £1.5 million yearly.

9. As well as the tax saving, the main additional benefit that is expected to accrue to employers and employees, and the main aim of the policy, is the increase in productivity due to widespread employee participation in the new share plan. Employee share ownership, particularly when combined with other forms of active employee participation, can improve productivity by motivating employees to help the company they work for succeed. The new plan incorporates particular features designed to reinforce the relationship between employees and their company. For instance, the ability of the employer to offer partnership shares, which the employee may purchase out of their own salary, makes the employee's stake in the company more explicit than the simple receipt of free shares.

10. The Government hopes that the increase in productivity resulting from the introduction of the new all-employee share plan will benefit not only the employers and employees involved but also the economy as a whole. One route by which this may happen is if higher productivity enables British firms to compete more effectively on the world stage and capture a greater share of international markets.

11. The plan may have an offsetting negative impact on economy-wide productivity. This could happen if employers unable to set up a plan (for example because they are unable to issue share capital) lose their most productive workers to firms offering tax-relieved remuneration through a plan, or else have to bid up wages to retain employees. But the Government expects the productivity benefits to outweigh any negative effects. However, the Inland Revenue intends to review the new plan periodically in order to monitor its economic impact.

12. The Government wants to encourage the new enterprise culture of teamwork in which everyone contributes to and everyone benefits from success. The new plan is designed to be as attractive as possible to as many employees as possible. Over 2 million employees are expected to participate in a plan. For the first time, employees will be able to purchase partnership

shares from pre-tax and NICs salary, and it is estimated that around 1¾ million employees will choose to do so.

13. Because employees will be buying shares from their pre-tax and pre-NICs pay, a number might lose entitlement to some social security benefits, statutory sick pay (SSP) and statutory maternity pay (SMP). In the case of some benefits, the loss will arise because entitlement depends on the number of contributions paid or deemed to have been paid. For SSP and SMP the loss will arise because entitlement depends on the level of earnings for NICs purposes. Where the level of earnings drops below the lower earnings limit for NICs purposes, entitlement will be lost. For SMP, some women may also lose some benefit for the first 6 weeks of entitlement because the amount payable is 90% of gross earnings for NICs purposes.

14. Information will be made available to all employees to help them decide whether their future entitlement may be affected if they choose to buy shares. A small number may still decide to purchase shares if they consider that the advantages will outweigh the potential loss of benefit entitlement. Details of the potential effects are included in Appendix 5 Table 1.

15. Some respondents to the consultation document “A New All-Employee Share Plan: Draft legislation and commentary” identified costs as an important issue. Particular concern was expressed about the need for frequent share valuations possibly being expensive for small companies.

16. The Inland Revenue is working on special help and new guidance for unquoted companies to enable them to agree valuations quickly and easily. Where possible, valuations may be agreed for extended periods where there is no substantive change in the company’s circumstances. This will reduce the number of occasions that a valuation is needed.

17. A summary table at Appendix 1 shows the benefits and costs of implementing the new all-employee plan arrangements. Following recent

consultation, it takes into account the impact of the Budget day announcements about the future of the existing all-employee share schemes.

### **Compliance Costs**

18. The new plan is not compulsory. It has been designed to appeal to as many companies as possible.

19. The new plan is designed to be attractive to all companies. Keeping administration costs (particularly for the smaller company) to a minimum has been a key feature of the development process. The new plan is very flexible. If the administration costs are an issue for a smaller company then it will be possible to put quite a simple plan in place. Where administration is not such an important issue, typically for the larger company, it will be possible to put in place a more comprehensive plan, with lots of features. A brief outline of the main features possible in a typical plan and the features of a simple plan are shown at Appendix 2 Tables 1 & 2.

20. Budget 2000 saw the announcement on the future of the existing all-employee schemes - Approved Profit Sharing (APS) and SAYE Sharesave (SAYE). The phasing out of APS by April 2002 is likely to involve transitional costs as companies move from their APS schemes to new plans. For a brief period, some companies may choose to have both APS and a new plan running simultaneously. The transitional arrangements for the phasing out of APS are intended to be straightforward and simple to implement, helping to keep to a minimum any additional costs.

21. Companies, whether large or small, will be faced by a certain amount of administration when setting up and running a new plan. The following tasks have been identified:

- setting up and running a trust
- obtaining approval from shareholders and the Revenue
- informing employees, and

- record-keeping, including adjustments to the payroll software – probably the purchase of proprietary specialist software to link across easily to payroll.

The Inland Revenue has consulted on how the administration requirements will differ according to company size.

22. Administrative costs for very large listed companies setting up a plan have been estimated at somewhere between £200,000 and £750,000. Set-up costs for smaller companies are estimated at significantly less, between £20,000 and £40,000 for an unlisted company with about 50 employees.

23. Following the Budget announcement about the future of the existing all-employee schemes, the Inland Revenue has consulted further on the impact on costs within the two-year transitional period. During this period, some 850 to 900 existing APS companies (of whom about one third are listed) will have to close down their existing APS. They will incur incremental costs in modifying their existing administration and payroll systems to bring them into line to offer a new plan.

24. Typically, companies expect to be able to build on their existing in-house arrangements to minimise costs. It appears that some companies have not had enough time to make up their minds about what exactly they will do, and so there is no definite information on compliance costs. Also some other companies have a dormant APS in which case moving to a new plan will be relatively more costly. Overall there is at this stage a very considerable degree of uncertainty about companies' responses and about the corresponding one-off compliance costs in the two transitional years and in the third year (when APS is no longer available).

25. More details of the likely administrative tasks and estimates of the compliance costs of adopting a new plan are shown at Appendix 3 Tables 1 & 2. These costs are presented as costs incurred over and above the existing costs based on APS continuing.

26. Running costs of the new plan are likely to be greater than those of existing schemes. This arises because of the larger amount of information which will need to be held for a new plan. Reporting requirements will also increase since the proposed return requires individual level information on all participants whereas previously data was required only for those employees with more than £3,000 of appropriated shares. However, the use of electronic transfer of information would markedly reduce this increase in the annual burden as against a paper based reporting requirement.

27. The opportunity for partnership shares to be purchased will trigger more annual reporting. This compares with a baseline for APS when it was possible for about half the companies in any year to produce a nil annual return. The new trust arrangements are also more extensive: for example shares may well be held in trust for longer, while there is an advantage to the individual of tax free dividend shares, and all gains are tax free. In line with progress towards the target of 1,750 companies with all-employee share schemes, overall the number of companies with annual reporting would be expected to more than double.

### **One-off compliance costs**

28. The total additional one-off compliance costs have two components. The first is based on some 90 companies previously without an approved share scheme adopting a plan each year for the first five years. The second is based on some 850 to 900 existing APS companies moving from APS to the new plan.

29. In the first five years, it is expected that some 30 listed companies and some 60 unlisted companies each year will adopt a plan when they have not previously had an approved share scheme. In addition, some 850 to 900 existing APS companies will probably move into new plans over a three-year period. Using typical costs, this results in the following estimates of one-off compliance costs.

30. For each unlisted company, set-up compliance costs are likely to be, on average, around £20,000 to £25,000, and for each listed company, set-up compliance costs are likely to be, on average, around £200,000 to £300,000. In total, this implies that there is a one-off cost, in round terms, of £7 to £10 million in each of years 1 to 5.

31. For the existing listed APS companies average costs for the additional work required might be £50,000 to £100,000 for a basic plan and more for a partnership plan, but not all of these companies will offer partnership shares. This implies costs of some £13 to £26 million for the basic plan, with more for those offering partnership shares. Similar considerations for the unlisted companies suggest about as much again – with perhaps even more uncertainty about the partnership shares costs.

32. Overall, the total additional one-off compliance costs for both listed and unlisted companies are expected to be of the order of some £25 to £50 million (rounded to include the partnership shares element). These costs are expected to be incurred over the first three years.

33. Overall, the total additional one-off costs including both components are estimated to be between £60 million and £100 million spread over five years. The bulk of the cost is likely to be incurred in the first three years. There is particular uncertainty about how much additional money companies will need to spend to convert their system to the new plan using existing APS elements as effectively as possible during the transitional period. In the above some relatively small allowance has also been made for the continuation of SAYE.

#### **Annual compliance costs**

34. The above pattern of some 30 listed companies and some 60 unlisted companies previously without an approved share scheme, adopting a plan each year for say the first five years, results in total annual compliance costs that build up each year.

35. By year 5 there will be 300 unlisted companies and 150 listed companies, with annual compliance costs. It is estimated that each unlisted company will have costs of around £10,000 to £20,000 on average and that each listed company will have costs of around £100,000 on average each year. This results in annual compliance costs of around £3.5 to 4 million in year 1 rising to around £18 to £21 million in year 5.

36. It is difficult to foresee how companies with existing APS and SAYE schemes will behave in the transitional period. Assuming that the maximum use is made of electronic transfer of information, a net additional annual compliance cost adjustment of £2.5 million in year 1, rising to £8 million in year 3 (and constant thereafter), is suggested for the net additional plan costs of these companies. These figures are on top of their existing APS and SAYE annual compliance costs.

37. Overall, the additional annual compliance costs are expected to build up from about £6 million in year 1 to £28 million in year 5.

### **Litmus test for the small business**

38. Several small businesses were asked to estimate what their costs might be for adopting a relatively straightforward plan. They indicated that buying in all the advice and assistance for a basic scheme suitable for a small company with around 50 employees might cost about £20,000 – starting from scratch. The corresponding annual cost would be typically £15,000, though this could possibly reduce through competition to close to £10,000.

### **Other Costs**

39. Businesses are unlikely to be affected by any additional or indirect costs. There are no additional costs for individuals, charities and voluntary organisations. Estimates for the cost to Government in developing, monitoring and enforcing the new plan are negligible, although there will be an initial resource requirement to deal with the expected increase in work on approvals.

## **Consultation**

40. Consultation on the new plan has been extensive, successfully enabling the Inland Revenue to respond to constructive points of detail about the draft legislation published in November 1999. Many respondents said that they welcomed the opportunity to comment and to have some input into the new plan. One practitioner commented *“We welcome the Inland Revenue’s willingness to consult on the new....scheme and we are pleased to have the opportunity to express our view and those of our clients.”* More details about the results of the consultation process are shown at Appendix 4 Tables 1 & 3.

41. The consultation process also benefited from the formation of an advisory group to work with the Inland Revenue and the Treasury on the detail of the new plan. The advisory body was drawn from practitioners, business and other interested parties. Several members of the advisory group have small company experience. Following input from the advisory group and comments from the first consultation document issued in March 1999, several important changes were made to the design of the new plan. As a result, employees who keep their shares in the plan for five years will pay no income tax or NICs on those shares. This aligns the tax treatment of free, matching and partnership shares so that the plan is simpler to operate and easier to communicate. More details about the advisory group are shown at Appendix 4 Table 2.

42. As part of the consultation process the Inland Revenue has also worked closely with ProShare, a not for profit organisation which promotes wider responsible share ownership. Through ProShare the Inland Revenue has been able to consult around 60 companies, covering larger PLC’s and small and medium sized enterprises, and incorporate their ideas and suggestions into the plan design.

43. The Inland Revenue has also worked closely with ProShare in the joint presentation of a series of Roadshows up and down the country. Over 30,000 companies with between 50 and 500 employees received an invitation to

attend a seminar which introduced them to the new plan. A total of 22 presentations were given, at 11 events, in 10 venues countrywide.

44. Feedback from the Roadshows has been very positive, with companies attending commenting favourably on many aspects of the new plan, especially the fact that it is so flexible. Most of the audience at the Roadshows was made up of representatives of companies who do not have an employee share plan at present, and their interest suggests that the plan will be an important step towards increasing the number of companies providing shares for all their employees. More details about the activities involving the Inland Revenue and ProShare are shown at Appendix 4 Table 2.

### **Summary**

45. The new all-employee plan is an important step towards meeting the Chancellor's target of doubling the number of companies offering shares to all their employees. It is the most tax advantaged all-employee share scheme ever introduced in the UK, encouraging participation of employers and employees alike in wider responsible share ownership.

46. Total additional one-off compliance costs have two components. The first is based on some 90 companies previously without an approved share scheme adopting a plan each year for the first five years. The second is based on some 850 to 900 existing APS companies moving from APS to the new plan. For these we anticipate that the bulk of their costs will be incurred in the first three years. Taken together total additional one-off compliance costs are expected to be between £60 million and £100 million spread over five years with the bulk of those costs incurred in the first three years.

47. Following further consultation, the revisions to the draft RIA published on Budget day are principally due to the costs of the transitional arrangements during the two remaining years of the APS and a further element in the third year when only the new plan is available. Also In the light of comments received from consultation in the last month, there has been a revision

downwards to the expected one-off and annual costs of the 90 companies previously without an approved share scheme

48. There is considerable uncertainty about how much companies will spend, as many do not have detailed costs to hand for both one-off and recurrent costs. Similar considerations apply for recurrent costs. Recurrent costs based on the same number of companies are expected to rise from about £6 million in the first year to some £28 million in year five.

49. Combining these estimated costs with indicative estimates of shares held in a new plan indicates net tax and NICs savings, after taking account of compliance costs, of between £40,000 to £60,000 a year for a plan with 500 employees and between £1.25 million and £1.75 million a year for a plan with 10,000 employees.

50. The expected benefits in the form of higher productivity are difficult to quantify, but could be significant in companies which combine the plan with other forms of employee participation. The plan will be monitored to assess its impact on productivity.

51. Relatively speaking, compliance costs will have a somewhat greater impact on smaller companies than on larger companies in terms of administrative and running costs. However, the benefits to be gained from operating a plan are believed to outweigh any disadvantages.

### **Monitoring & Review**

52. The new plan will be Revenue approved with an annual return giving details of shares provided under the plan. The procedures for obtaining approval for the setting up of a plan form the basis for its compliance. Sanctions for non-compliance are also proposed. The Inland Revenue will offer support and guidance to enable companies to comply. A model trust deed, model rules and a model partnership share agreement will be available free of charge on the Internet.

53. The Inland Revenue will have the power to withdraw approval of the plan under certain circumstances, and there will be penalties for the late submission of the annual return. It is expected that only a very small number of companies would be affected by these sanctions.

54. The Inland Revenue will monitor the new plan to quantify benefits which may not be immediate but will build up over time.

55. The Inland Revenue will also monitor the new plan to determine progress towards the take up target of 1,750 companies. The assumptions used for estimating the costs for this RIA will also be monitored and reconsidered in the light of actual take ups and their costs.

56. Progress in implementing the new plan will be reviewed in March 2002.

## **COMMENTS**

Comments on this Regulatory Impact Assessment are welcome and should be sent to:

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**Table 1: Summary of costs and benefits  
(paragraph 17 in the main RIA text)**

	<b>Expected costs</b>	<b>Expected benefits</b>
<b>Business Large</b>	<p>One-off costs estimated at between £200,000 and £750,000 (based on a range from a bottom FTSE 350 to a major FTSE 100)</p> <p>Recurrent costs estimated at £100,000 to £200,000 each year (based on a range from a bottom of FTSE 350 to a major FTSE 100)</p>	<ul style="list-style-type: none"> <li>• Likely to benefit the economy as a whole, as well as individual employers and employees</li> <li>• Likely to improve productivity particularly when combined with modern management practices and other forms of active employee participation</li> <li>• Likely to help bridge the gap between employees, managers and shareholders</li> <li>• Likely to help reduce staff turnover by improving employee commitment and motivation</li> <li>• Provides payroll savings in the form of relief from employer's NICs</li> <li>• Provides relief from corporation tax</li> </ul>
<b>Business Small</b>	<p>One-off costs estimated at typically between £20,000 and £40,000</p> <p>Recurrent costs estimated at typically £15,000 to £30,000 with £10,000 as a rock bottom minimum for a company with 50 employees</p>	<ul style="list-style-type: none"> <li>• Likely to be taken up by companies previously unable or unwilling to offer shares to their workforce</li> <li>• Likely to improve productivity particularly when combined with modern management practices and other forms of active employee participation</li> <li>• Likely to help reduce staff turnover by improving employee commitment and motivation</li> <li>• Likely to help bridge the gap between employees, managers and shareholders by aligning more closely the interests of the workforce and those of the owners of the company</li> <li>• Provides payroll savings and relief from corporation tax as for larger companies</li> </ul>

**Appendix 1 continued**

**Table 1 continued: Summary of costs and benefits  
(paragraph 17 in the main RIA text)**

	<b>Expected costs</b>	<b>Expected benefits</b>
<b>Employees</b>	<ul style="list-style-type: none"> <li>• Time costs in understanding the new plan, resolving queries and completing any paperwork</li> <li>• Buying partnership shares may reduce the benefit entitlement of a small number of people (see Appendix 5)</li> </ul>	<ul style="list-style-type: none"> <li>• Likely to strengthen the partnership between employee and employer by giving the employee a direct interest in the company's success and share performance</li> <li>• Provides relief from income tax and NICs</li> <li>• Allows for employees to receive dividends free of tax</li> <li>• Provides a capital gains tax shelter while shares are in the plan</li> </ul>
<b>Government</b>	Negligible administrative costs	<ul style="list-style-type: none"> <li>• Encourages the new enterprise culture by stimulating wider responsible share ownership where the shares are likely to be held for a longer time</li> </ul>

**Table 1: Main features of a typical plan (paragraph 19 in main RIA text)**

- Employees can buy “partnership shares” from their gross monthly salary or weekly wages, free of tax and NICs at that point
  - maximum salary allocation of £1,500 each year with an earnings cap of 10% and a monthly limit of £125
  - minimum contribution £10 a month
- Employers can give up to £3,000 of free shares to all employees, tax and NICs free at that point
- Employers can match the “partnership shares” with up to 2 free shares for each partnership share bought by the employee – known as “matching shares” – also tax and NICs free at that point
- Employers have greater flexibility in the way that they reward employees with free shares in return for reaching performance targets; for example allowing personal, team, or divisional performance to be rewarded
- Employees will not normally be able to withdraw free and matching shares from the plan for 3 years
- Free and matching shares will be completely free of tax and NICs if they have been held in the plan for 5 years, and will be taxable on their initial value between years 3 and 5
- Partnership shares will be subject to tax and NICs on their market value on withdrawal if employees take them out of the plan in the first 3 years
- Partnership shares held in the plan after the 3 year point will have tax advantages, with shares becoming completely free of tax and NICs after 5 years in the plan
- Any gain in the value of any shares while they are in the plan will be tax and NICs free
- When shares come out of the plan, their market value at that date will form the base cost for any capital gain arising on any subsequent sales
- Employees have to take their shares out of the plan when they leave employment
- Free and matching shares may be subject to forfeiture if the employee leaves within 3 years. “Good leavers” – such as those who have left through redundancy, retirement or death will receive favourable tax treatment and their plan shares will not be subject to forfeiture.

## Appendix 2 (continued)

**Table 1 (continued): Main features of a typical plan  
(paragraph 19 in main RIA text)**

- Dividends paid on the shares in the plan will be tax-free, up to annual limits, provided they are used to acquire additional shares in the company
- Companies will get a deduction in computing their taxable profits for the costs of setting up and running the plan, and the value of shares used in the plan
- Companies can provide that shares must be offered for sale when employees leave; companies can offer shares with no voting rights; companies, but typically those with fewer shares, can offer shares subject to forfeiture. These measures are specifically to encourage smaller companies to participate.

**Table 2: Features of a simple plan (paragraph 19 in main RIA text)**

- Plan with free shares only
  - with no restrictions such as forfeiture or performance targets (although adding these features does not increase complexity very significantly);
  - up to a value of £3,000, to all employees;
  - tax and NICs free at this point
- Employees will not normally be able to withdraw the free shares from the plan for 3 years
- The free shares will be completely free of tax and NICs if they have been held in the plan for 5 years, and will be taxable on their initial value between years 3 and 5
- Any gain in the value of the free shares while they are in the plan will be tax free
- When the free shares come out of the plan, their market value at that date will form the base cost for any capital gain arising on any subsequent sale
- Employees have to take their shares out of the plan when they leave employment
- Dividends paid on the free shares in the plan will be tax-free, up to annual limits, provided they are used to acquire additional shares in the company
- Companies will get a deduction in computing their taxable profits for the costs of setting up and running the plan, and the market value of free shares used in the plan.

Table 1: Administrative tasks (paragraph 24 in main RIA text)

Likely actions for a company to take when adopting a plan from scratch*	
Larger Companies	Smaller Companies
<ul style="list-style-type: none"> <li>• Agreeing how to use the plan within an integrated employee remuneration strategy</li> <li>• Designing a tailored plan <ul style="list-style-type: none"> <li>– utilising in-house resources, but where appropriate</li> <li>– seeking advice from external advisers</li> </ul> </li> <li>• Considering operational arrangements (trusts, admin, resourcing and communications)</li> <li>• Obtaining Board approval</li> <li>• Obtaining shareholder and Inland Revenue approval</li> <li>• Deciding how to apply the plan overseas and arrange for clearances in the countries concerned</li> <li>• Communicating with and educating employees; advise trades unions</li> <li>• Negotiating with external suppliers of record keeping services</li> <li>• Keeping records to allow monitoring of: <ul style="list-style-type: none"> <li>– holding periods</li> <li>– taxation on withdrawal</li> <li>– dividends, and where appropriate</li> <li>– forfeiture</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Designing a tailored plan <ul style="list-style-type: none"> <li>– utilising in-house resources, but where appropriate</li> <li>– seeking advice from external advisers</li> </ul> </li> <li>• Considering setting up a trust, or where appropriate, using an existing trust</li> <li>• Obtaining Board approval</li> <li>• Obtaining shareholder approval where required</li> <li>• Obtaining Inland Revenue approval</li> <li>• Making arrangements to: administer the plan in-house;</li> <li>• Paying an external trustee</li> <li>• Keeping employees informed</li> <li>• Keeping records to allow monitoring of: <ul style="list-style-type: none"> <li>– holding periods</li> <li>– taxation on withdrawal</li> <li>– dividends, and where appropriate</li> <li>– forfeiture</li> </ul> </li> </ul>

**Table 2: Details of cost of adopting a new plan  
(paragraphs 24 to 36 in main RIA text)**

<b>Estimate of the setting-up costs for a company adopting a new plan from scratch*</b>	
<b>Larger Companies</b>	<b>Smaller Companies</b>
<ul style="list-style-type: none"> <li>• Communication costs £100,000 to £250,000</li> <li>• Legal and consultancy fees £50,000 to £250,000</li> <li>• Arrangements for overseas employees could be up to £150,000 or more</li> <li>• Employee education £10,000 to £60,000</li> <li>• Payroll costs new module added to existing payroll system, say £10,000</li> <li>• Overall costs likely to be in range of £200,000 to £750,000 (based on a range spanning bottom of FTSE 350 to a major FTSE 100)</li> </ul>	<ul style="list-style-type: none"> <li>• Communication costs</li> <li>• Legal and consultancy fees</li> <li>• Arrangements for overseas employees</li> <li>• Employee education</li> <li>• Payroll costs – basic software package add-on likely</li> <li>• Overall costs likely to be in range of £20,000 to £40,000</li> </ul> <p>(It is not possible to split costs for smaller in as much detail as larger. “Smaller” indicated as being approximately 50 employees)</p>
<b>Estimate of the ongoing costs for a company with a new plan</b>	
<b>Larger Companies</b>	<b>Smaller Companies</b>
<ul style="list-style-type: none"> <li>• Annual communications including some in-house staff support</li> <li>• Maintaining a register of employees</li> <li>• Overall costs typically £100,000 to £200,000</li> </ul>	<ul style="list-style-type: none"> <li>• Annual communications</li> <li>• Maintaining a register of employees</li> <li>• Overall costs £15,000 to £30,000, possibly minimum driven down to £10,000 in some cases</li> </ul>

\* Note that if the company is not building a new plan from scratch there will be elements of APS that may well be re-useable, and so costs would not be as high as working entirely from scratch.

**Table 1: Details of Phase 1 of the consultation exercise  
(paragraph 38 in main RIA text)**

<b>Phase 1</b>	
<p><b>Treasury document 18/12/98</b></p> <p>4,500 copies of Treasury consultation document "Consultation on Employee Share Ownership" issued</p>	<p><b>Result</b></p> <ul style="list-style-type: none"> <li>■ Responses from 200 sources <ul style="list-style-type: none"> <li>• 115 from companies <ul style="list-style-type: none"> <li>66 from plcs</li> <li>31 from SMEs</li> <li>18 from unlisted companies</li> </ul> </li> <li>• 15 from individuals</li> <li>• 70 from other sources <ul style="list-style-type: none"> <li>34 from practitioners</li> <li>32 from representative bodies</li> <li>4 from voluntary groups</li> </ul> </li> </ul> </li> </ul>
<p><b>Inland Revenue meetings</b></p> <p>Various practitioners and interested parties consulted</p>	<p><b>Result</b></p> <ul style="list-style-type: none"> <li>■ Feedback obtained from 17 events</li> </ul>
<p><b>Inland Revenue Technical Note March 1999</b></p> <p>Feedback from the issue of the technical note "A New All-Employee Share Scheme"</p>	<p><b>Result</b></p> <ul style="list-style-type: none"> <li>■ Responses from 116 sources <ul style="list-style-type: none"> <li>• 59 from companies <ul style="list-style-type: none"> <li>43 from plcs</li> <li>4 from SMEs</li> <li>12 from unlisted/AIM companies</li> </ul> </li> <li>• 8 from individuals</li> <li>• 49 from other sources <ul style="list-style-type: none"> <li>24 from practitioners</li> <li>23 from representative bodies</li> <li>2 from voluntary groups</li> </ul> </li> </ul> </li> </ul>

**Table 2: Details of Phase 2 of the consultation exercise  
(paragraphs 39 to 42 in main RIA text)**

<b>Phase 2</b>																			
<p><b>Formation of Advisory Group to work with Inland Revenue</b></p> <p>A 9 strong team chosen consisting of:-</p> <table border="0"> <tr> <td>David Cohen</td> <td>Norton Rose</td> </tr> <tr> <td>Jeannie Drake</td> <td>TUC</td> </tr> <tr> <td>John Hampton</td> <td>BT</td> </tr> <tr> <td>Sue Keast</td> <td>Bioglan Pharma plc</td> </tr> <tr> <td>Nigel Mason</td> <td>Capital Strategies Ltd</td> </tr> <tr> <td>Graeme Nuttall</td> <td>Field Fisher Waterhouse</td> </tr> <tr> <td>Andrew Pendleton</td> <td>Manchester Metropolitan University</td> </tr> <tr> <td>David Pett</td> <td>Pinsent Curtis</td> </tr> <tr> <td>David Tuch</td> <td>KPMG</td> </tr> </table>	David Cohen	Norton Rose	Jeannie Drake	TUC	John Hampton	BT	Sue Keast	Bioglan Pharma plc	Nigel Mason	Capital Strategies Ltd	Graeme Nuttall	Field Fisher Waterhouse	Andrew Pendleton	Manchester Metropolitan University	David Pett	Pinsent Curtis	David Tuch	KPMG	<p><b>Result</b></p> <p>■ 17 meetings: held between Inaugural meeting with Ministers 30 March 1999 and last phase 3 meeting 25 January 2000  recommendations to Ministers on 18 August 1999</p>
David Cohen	Norton Rose																		
Jeannie Drake	TUC																		
John Hampton	BT																		
Sue Keast	Bioglan Pharma plc																		
Nigel Mason	Capital Strategies Ltd																		
Graeme Nuttall	Field Fisher Waterhouse																		
Andrew Pendleton	Manchester Metropolitan University																		
David Pett	Pinsent Curtis																		
David Tuch	KPMG																		
<p><b>Formation of a Focus Group by ProShare to consult with the Inland Revenue</b></p> <p>ProShare is an independent, not for profit organisation dedicated to promoting responsible share-based investment, including employee share ownership.</p>	<p><b>Result</b></p> <p>■ through ProShare: a programme of 26 meetings consulting a 60 - strong group of companies representative of a wide range of business sizes</p>																		
<p><b>Joint Inland Revenue and ProShare Roadshows</b></p> <p>Over 30,000 invitations sent to unlisted companies with between 50 and 500 employees</p>	<p><b>Result</b></p> <p>22 presentations at 11 events in 10 venues between 6 December 1999 and 21 January 2000</p>																		

**Table 3: Details of Phase 3 of the consultation exercise  
(paragraph 38 in main RIA text)**

<b>Phase 3</b>	
<p><b>Inland Revenue document 10/11/99</b></p> <p>Feedback from the issue of “A New All-Employee Share Plan: Draft legislation and commentary”</p>	<p><b>Result</b></p> <ul style="list-style-type: none"> <li>■ Responses from 154 sources           <ul style="list-style-type: none"> <li>• 75 from companies               <ul style="list-style-type: none"> <li>61 from plcs</li> <li>12 from SMEs</li> <li>2 from unlisted companies</li> </ul> </li> <li>• 23 from individuals</li> <li>• 56 from other sources               <ul style="list-style-type: none"> <li>39 from practitioners</li> <li>14 from representative bodies</li> <li>3 from voluntary groups</li> </ul> </li> </ul> </li> </ul>

## Appendix 5

**Table 1: Details of employees whose benefit may be affected  
(paragraphs 13 to 14 in main RIA text)**

Estimated numbers of individuals who may lose or receive a reduced entitlement to benefits as a result of making an informed choice to purchase partnership shares in the new All-Employee Share Plan. Employees will receive guidance on the likely effect on their benefit entitlement before making a choice of whether or not to purchase partnership shares.		
	Number <sup>1</sup>	% of plan participants
Number of plan participants	2.15m	
Number expected to purchase partnership shares	1.75m	
Number expected to reduce their qualifying years for Retirement Pension purposes	6,500	0.30
Number who may lose entitlement to Incapacity Benefit	520	0.02
Number who may lose entitlement to Statutory Sick Pay	4,530	0.21
Number who may lose entitlement to Statutory Maternity Pay (SMP) <sup>2</sup>	1,060	0.05
Number who may receive up to 10% less earnings related SMP <sup>3</sup>	2,440	0.11
Number who may receive up to 10% less Maternity Allowance <sup>4</sup>	520	0.02
Number who may lose entitlement to Job Seekers Allowance (Contributory Benefit)	80	0.004

<sup>1</sup> Number of people affected each year.

<sup>2</sup> All of these will have entitlement to Maternity Allowance.

<sup>3</sup> Earnings related SMP is paid for the first 6 weeks. The remaining SMP entitlement is at a flat rate.

<sup>4</sup> In practice a few would receive the same amount of maternity allowance and a small number might lose entitlement.