



Inland  
Revenue

# Share Incentive Plans and your entitlement to benefits



We produce a wide range of leaflets, booklets and helpsheets, each designed to explain different aspects of your tax or National Insurance in plain English, and to assist with the completion of tax returns. Most of them are free, and most are also available in Welsh.

**We have a full range of services for people with disabilities, including leaflets in Braille, audio and large print. For details, please ask at your local Inland Revenue office or Enquiry Centre.**

Our leaflet COP1 'Putting things right. How to complain' tells you more about the standard of service you can expect from us. It also tells you the steps you can take if you want to make any comments on the service you receive, or complain about the way we have handled your tax affairs.

Our IR List 'Catalogue of leaflets and booklets' gives further information about our publications, most of which you can get from any Inland Revenue Enquiry Centre, Tax Office or National Insurance Contributions Office. Addresses are in your local telephone book under 'Inland Revenue'. Most offices are open to the public from 8.30am to 5.00pm, Monday to Friday, and some are also open outside these hours. Social Security Offices, your library or Citizens' Advice Bureau may also have copies of our leaflets.

You can also get most of our forms and leaflets

- by calling our Orderline on **0845 9000 404** between 8.00am and 10.00pm, seven days a week (except Christmas Day)
- by fax on **0845 9000 604**
- by e-mail on **saorderline.ir@gtnet.gov.uk**
- on the Internet at **www.inlandrevenue.gov.uk**

- by writing to

**PO Box 37  
St Austell  
Cornwall  
PL25 5YN**

Leaflets and information on tax credits are available from

WFTC Helpline on **0845 609 5000**

DPTC Helpline on **0845 605 5858**.

The Helplines are open

7.30am to 8.00pm, Monday to Thursday

7.30am to 7.00pm, Friday

10.00am to 4.00pm, weekends.

Helpline and Orderline calls are charged at local rates.

The following leaflets are available from Benefits Agency offices

IB1	A guide to Incapacity Benefit
IB203	Incapacity Benefit. Getting back to work
INF2	Income Support Information leaflet
JSAL5	Jobseeker's Allowance. Helping you back to work
NI17A	A guide to maternity benefits
GL16	Help with your rent
GL17	Help with your council tax

This leaflet explains what might happen to your entitlement to contribution-based, earnings-related and means-tested state benefits, tax credits and work related payments if you buy shares offered by your employer through a Share Incentive Plan.

### *What is a Share Incentive Plan?*

Some employers offer their employees the opportunity to buy partnership shares in the business, from their gross pay, under a Share Incentive Plan. If this applies to you, your employer will give you details of the plan, which include a warning that you could lose some entitlement to state benefits and tax credits if you take part.

This leaflet answers many of the questions you might have and explains why you should consider carefully the possible effects on your benefit and tax credit entitlement before you decide to buy partnership shares. It is not intended to give you advice on whether or not you should take part in a Share Incentive Plan. The information in this leaflet is based on the rules that apply at the time of writing.

It explains how buying shares might affect your benefit entitlement and describes the effect on

- contribution-based benefits (e.g. Retirement Pension)
- earnings-related benefits (e.g. Maternity Allowance)
- work-related payments (e.g. Statutory Sick Pay)
- tax credits (Working Families' Tax Credit and Disabled Person's Tax Credit)
- means-tested benefits (e.g. Income Support)
- married women paying reduced-rate contributions
- putting money aside to buy shares.

## *How will buying shares affect my benefit entitlement?*

Under the Share Incentive Plan rules, you will not pay income tax or National Insurance contributions (NICs) on the pay you use to buy shares. Although this means you get more shares for your money, it also

- cuts the earnings on which you can pay NICs
- may take your earnings for which NICs are due below the lower earnings limit (LEL), which is £72 per week for the tax year 2001/02.

As your entitlement to some benefits is based on the amount of NICs that you pay, and others on the amount of your earnings, buying shares may affect your current or future claims for a range of benefits.

For most employees, paying less NICs will not matter because

- you may still be paying enough NICs to qualify for benefits
- your taxable earnings may still be between £72 and £87 a week (the LEL and the Primary Threshold for tax year 2001/02), so that you are still deemed to be paying NICs and you can still build up benefit rights even though you are not actually paying NICs
- you may already be earning below the LEL before you buy the shares
- if you only buy shares for a short period, your contribution history will only be affected for that period, so the effect on your benefit entitlement will be minimal.

Buying shares through a Share Incentive Plan may also affect your entitlement to Statutory Sick Pay, Statutory Maternity Pay, the State Pension and any means-tested benefits or tax credits. You should consider these effects before you decide whether to buy shares.

## *How does buying shares affect contribution-based benefits?*

Your entitlement to contribution-based benefits is related to the amount of NICs that you have paid, or are deemed to have paid. Buying shares may reduce the amount of earnings on which you pay tax and NICs to below the LEL, so that you are no longer paying (or deemed to be paying) NICs on your income. Even if your income remains above the LEL, because you are paying (or deemed to be paying) less NICs, this may reduce your entitlement to contribution-based benefits.

Contribution-based benefits include

- **Incapacity Benefit**

If your deductible earnings fall below the LEL, you may not be entitled to Incapacity Benefit. If this happens, you may be entitled to Income Support based on incapacity, which is a means-tested benefit.

- **Jobseeker's Allowance (JSA) (contribution-based)**

If your deductible earnings fall below the LEL, you may not be entitled to any JSA (contribution-based), as this benefit is paid at a set amount which cannot be reduced. If you have not paid (or are not deemed to have paid) enough NICs, you will lose entitlement to this benefit. If this happens, you may still be able to claim JSA (income-based), which is a means-tested benefit.

- **Retirement Pension**

If you have not paid (or are not deemed to have paid) enough NICs on your income, you may receive a reduced Retirement Pension when you retire, or none at all.

### *How does buying shares affect earnings-related benefits?*

Your entitlement to earnings-related benefits is based on the level of your earnings, not including any amounts you use to buy shares. If buying partnership shares brings your deductible earnings below the LEL, this will reduce your entitlement to these benefits.

Earnings-related benefits include

- **Maternity Allowance (MA)**

If your deductible earnings fall below £30 per week, you will lose your entitlement to MA. If buying shares brings your earnings between £30 and £72, you will still be entitled to MA, but at a variable rate. If your earnings are £72 a week or more, you will receive the full standard amount of MA.

- **The State Second Pension**

The State Second Pension will be a reformed version of the current State Earnings Related Pension Scheme. If your annual income is between the LEL and £9,500, you are treated as if you earn £9,500 for the purposes of calculating your entitlement. Therefore, if buying partnership shares brings your earnings below the LEL, you will no longer be treated as if you earn £9,500, and this will reduce your entitlement to the State Second Pension.

## *How will buying shares affect work-related payments?*

Work-related payments are paid by your employer and are based on your average earnings over a fixed period before you begin to receive them. Any amount of pay you use to buy shares is not included as part of your average earnings for calculating these payments, so they may be reduced if you buy shares from your gross pay.

Work-related payments include

- **Statutory Maternity Pay (SMP)**

If your average weekly earnings (calculated for SMP entitlement purposes) fall below the LEL, you will lose your entitlement to SMP. If this happens, you may still be entitled to Maternity Allowance (MA), which is an earnings-related benefit. Even if you are still entitled to SMP, the higher rate, which you can receive during the first six weeks of maternity pay, will decrease, as it is based on the amount of your earnings. If your employer operates an occupational maternity pay scheme, you may still be entitled to maternity pay through that scheme.

- **Statutory Sick Pay (SSP)**

If your average weekly earnings (calculated for SSP entitlement purposes) fall below the LEL, you will lose your right to SSP. If this happens, you may still be entitled to Income Support based on incapacity or Incapacity Benefit, if you meet the qualifying conditions. These will be paid at a rate less than the normal rate of SSP. If your employer operates an occupational sick pay scheme, you may still be entitled to sick pay through that scheme.

## *How will buying shares affect my tax credit entitlement?*

Because buying shares from your gross pay increases the level of your net pay, this can reduce your entitlement to tax credits, which is based on your net income. The tax credits that can be affected are

- **Disabled Person's Tax Credit (DPTC)**, and
- **Working Families' Tax Credit (WFTC)**.

The amount of a WFTC or DPTC award depends on a number of factors, including the number of hours you work, how many children you have and whether you pay eligible childcare costs.

If your family's total net income rises above the relevant tax credit income threshold, then your maximum award will be reduced by 55p for every £1 of net income over this threshold. The thresholds for tax year 2001/02 are £92.90 a week for WFTC and for a couple or lone parent on DPTC, and £72.25 a week for a single person on DPTC.

For example, if you decide to buy £10 of shares each week under your employer's Share Incentive Plan, you will pay income tax and NICs on £10 less of your pay each week. So your net pay (which includes the amount you use to buy shares) will increase slightly. If you also get WFTC and your family's net income is over the net income threshold your next WFTC award could be reduced by 55p for every £1 increase in your net pay. But overall your net income will rise because the reduction in your WFTC will be less than the increase in your net pay.

### Example

Fiona, who works part-time, earns £100 gross a week. She is a lone parent with one child. She gets WFTC and Child Benefit, but has no other source of income. The amount of WFTC she receives is based on her net earnings, after income tax and NICs, and is calculated as follows

<b>Gross pay</b>		<b>£100.00</b>
Less: NICs	£2.40	
Income tax	£1.57	<u>£3.97</u>
<b>Net pay</b>		<b>£96.03</b>
<b>WFTC maximum amount</b>		
Basic tax credit	£59.00	
Child tax credit (age 12)	<u>£26.00</u>	
<b>Total</b>	<b>£85.00</b>	
Less 55% of net income over the WFTC income threshold of <b>£92.90</b> a week ( <b>£96.03</b> - £92.90 = £3.13) x 55%	£1.72	
<b>WFTC payable</b>		<b><u>£83.28</u></b>
<b>Net pay + WFTC</b>		<b>£179.31</b>

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Fiona decides to buy £10 of shares a week, from her gross pay, under her employer's Share Incentive Plan. This means that she will pay less tax and NICs, because these are now assessed on her remaining pay of £90 a week. So, her net pay will increase by £2 to £98.03 a week as shown below.

<b>Gross pay</b>		<b>£100.00</b>
Less: NICs (on £90)	£1.40	
Income tax (on £90)	£0.57	<u>£1.97</u>
<b>Net pay</b>		<b>£98.03</b>
<b>WFTC maximum amount</b>	<b>£85.00</b>	
Less 55% of net income over the WFTC income threshold of £92.90 a week ( <b>£98.03</b> - £92.90 = £5.13) x 55%	£2.82	
<b>WFTC payable</b>		<b><u>£82.18</u></b>
<b>Net pay + WFTC</b>		<b>£180.21</b>

Therefore, Fiona's net pay rises from £96.03 to £98.03 so her WFTC award falls by £1.10 a week, from £83.28 to £82.18. Her net pay rises because she is paying less tax and NICs. The example shows that although the WFTC payable falls, the net pay plus WFTC is higher because the amount of WFTC lost is less than the amount of income tax and NICs saved.

### **WFTC and DPTC capital rules**

When we work out the amount of your capital for WFTC or DPTC purposes, we take into account the market value of **any** shares you have, whether or not you bought them through the Share Incentive Plan. (We do not take into account the value of your home and personal possessions.)

If your total capital is above the lower limit of £3,000 for WFTC and DPTC, your award may be reduced. If your total capital is above £8,000, you will not be eligible for WFTC and if it is above £16,000 you will not be eligible for DPTC.

## *How will buying shares affect my means-tested benefits?*

The amount of capital you own, and the amount of your net income, affects your entitlement to means-tested benefits.

If you or your partner are receiving one of these benefits when you buy shares through the plan, because your net income (including the value of the shares you buy) rises, you may receive less benefit.

The market value of shares, however you buy them, is treated as capital, owning shares can reduce your entitlement to means-tested benefits if the share value takes your capital above the lower limit.

Means-tested benefits include

- **Council Tax Benefit (CTB)**
- **Housing Benefit (HB)**
- **Income Support (IS)**
- **Jobseeker's Allowance (JSA) (income-based).**

## *How does buying shares affect married women paying reduced-rate contributions?*

If buying shares reduces your earnings to below the LEL, you will not be liable to pay NICs and will not be treated as having paid them for benefit purposes.

If you are a married woman and your earnings are below the LEL for two consecutive tax years, and you are not self-employed in those years, you will automatically lose the right to pay reduced rate contributions.

## *Can I put money from my pay aside to buy shares later?*

Only if your employer offers you this option. If so, you can accumulate money this way for up to 12 months before it is used to buy shares. Tax and NICs are not deducted from this money.

## *Can I ask for a refund of this money?*

Yes. However, when you receive the refund, because the money is no longer being used to buy shares, tax and NICs will be deducted from it. These deductions could restore in part or in whole the benefit entitlement that you may have lost. The tax and NICs you pay on the refund may also offset the additional net pay that you had received as a result of buying shares.

# Our service commitment to you

The Inland Revenue and Customs and Excise are committed to giving you the best service we can by

## *acting fairly and impartially*

We

- treat your affairs in strict confidence, within the law
- want you to pay or receive only the right amount due.

## *communicating effectively with you*

We aim to provide

- clear and simple forms and guidance
- accurate and complete information.

## *providing good quality service*

We aim to

- handle your affairs promptly and accurately
- be accessible
- keep your costs to the minimum
- help customers with special needs
- be courteous and professional.

## *taking responsibility for our service*

We

- publish our customer service aims and achievements annually
- want to hear from you if you wish to comment, or complain, so we can improve our service. We advise you how to do this.

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## *We can provide better service if you help us by*

- keeping accurate and up-to-date records
- letting us know if your personal or business circumstances change
- giving us correct and complete information
- paying on time.

Further information on customer service is available at Inland Revenue and Customs and Excise local offices, set out in our Charters, complaint leaflets and Codes of Practice.

These notes are for guidance only and reflect the tax and NICs position at the time of writing. They do not affect any right of appeal.

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