

## EMPLOYEE SHARE SCHEMES

### *An Introductory Note to the National Statistics*

#### A. INTRODUCTION

1. The following statistical tables are published on tax-advantaged employee share schemes each year:

- Companies with tax-advantaged Employee Share Schemes: this table provides the number of companies operating tax-advantaged share schemes

The remaining tables provide for each scheme the number of live plans at tax year end, the numbers of companies granting share options, the number of employees granted those options and the total initial, and average, values of options granted. They also provide numbers of employees exercising options together with estimated costs of income tax and National Insurance Contributions reliefs,

- Save As You Earn Share Option Schemes, SAYE;
- Company Share Option Plans & Discretionary Share Option Schemes, CSOP;
- Share Incentive Plans, SIP; and
- Enterprise Management Incentives, EMI.

2. The statistics in the tables for each tax-advantaged scheme come from annual information returns that must be made to HMRC. Companies can operate one or more of each of the various types of schemes concurrently. In 2007-08 some changes were made to the reporting requirements for CSOP and for SAYE schemes, and this has reduced the range of statistics available for these schemes. The changes will be reversed for 2009-10 reporting.

#### B. EMPLOYEE SHARE SCHEMES

3. This note gives brief introductory information on each scheme and describes the statistics for each. Further detailed guidance on employee share schemes can be found at <http://www.hmrc.gov.uk/shareschemes/>.

#### Save As You Earn Share Option Schemes

4. Tax relief for approved SAYE Share Option schemes was introduced in 1980. The scheme allows a company to give employees the right ('option') to buy shares in the company at an exercise price that is fixed when the option is granted. The exercise price must not be less than 80 per cent of the value of the underlying shares at that time. Participating employees can save between £5 and £250 per month under a SAYE savings contract with either a bank, building society or Relevant European institution. These contracts last for three or five years. Employees with five-year SAYE contracts may decide at the outset whether to take the proceeds after the fifth anniversary or leave the savings for another two years to earn an additional bonus. The bonus or interest earned on these savings is tax-free.
5. The lump sum resulting from the SAYE contract can be used to buy the shares if the employee chooses to exercise their options after 3, 5 or 7 years, depending on the terms of the contract. Employees are not obliged to exercise their options and they may not want to do so if the current share price is less than the exercise price set when the option was granted. If the option is not exercised, the employee receives the proceeds of the SAYE contract in the normal way.
6. Under an approved SAYE Share Option scheme, the employee does not pay income tax or National Insurance on the grant of options, the bonus or interest received under the SAYE contract, the benefit from being able to buy shares at a discounted price, or any increase in the market value of underlying shares between the dates on which the option was granted and

exercised. Capital gains tax may be payable if shares acquired through a SAYE scheme are later sold.

7. The number of live plans under SAYE declined by 12 per cent to 830 in 2007-08 while the number of employees to whom options were granted declined by 9 per cent to 520,000. The number of employees exercising their options also saw a 25 per cent decline to 300,000, these changes all reflecting the current economic climate.

### **Company Share Option Plans**

8. A new type of discretionary scheme called CSOP replaced the Discretionary Share Option schemes in 1996<sup>1</sup>. Under CSOP there is a limit of £30,000 on the value of the shares under option that may be held by an employee at any one time (taking into account the value of shares in options held under any other approved CSOP scheme). Also, options may not be offered at a discount (i.e. the exercise price must not be manifestly less than the market value of the underlying shares on the option grant date).
9. There was a 22 per cent reduction from 3,000 to 2,330, in the number of live CSOP schemes at the end of the 2007-08 tax year. The number of employees to whom options were granted declined by 50 per cent from 130,000 to 65,000. This is mainly attributable to one large company not operating its scheme during the year. While it has not been possible to calculate details on exercises of options in 2007-08 due to changes made to scheme data capture forms, this will be reversed for 2009-10 reporting.

### **Share Incentive Plan**

10. Initially known as all-employee share ownership plan, SIP was introduced in Finance Act 2000 largely as a replacement for Approved Profit Sharing schemes<sup>2</sup>. The plan has three key elements:
  - Free shares – employers can give employees up to £3,000 worth of shares each year;
  - Partnership shares – employees can buy up to £1,500 of shares out of pre-tax and National Insurance earnings;
  - Matching shares – employers can give up to 2 free shares for each partnership share bought by the employee.
11. All shares are held in trust on behalf of employees. When an employee leaves, all their shares come out of the plan.
12. Employees do not pay income tax or National Insurance on the value of the free or matching shares given to them provided they keep them in the plan for at least 5 years. If they leave, or take them out of the plan for another reason, between 3 to 5 years, there is no tax and National Insurance charge on growth in value. If they take them out of the plan within 3 years, income tax and National Insurance is payable on the market value of the shares at the time the employee takes them out. No income tax is paid on the value of the dividends reinvested in more plan shares provided those shares stay in the plan for three or more years. No capital gains tax is payable on any increase in value while the shares are in the plan. When the shares are sold, the cost for calculating capital gains tax liability (if any) is the market value of the shares on exit from the plan and not the market value at acquisition.
13. A 9 per cent reduction in the number of live plans, from 960 to 870 was recorded in the 2007-08 year. This was also reflected in changes in the number of plans that appropriated shares (6 per cent fall, to 500). Other declines were also recorded in the initial value of the shares appropriated, and in the estimated cost of income tax and NICs reliefs. As with the other schemes, these downward movements reflect recent changes in the economic climate.

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<sup>1</sup> Statistics for DSOP and CSOP are available in the CSOP statistical tables

<sup>2</sup> A final version of the APS table produced in July 2005 is available on the website

## **Enterprise Management Incentives**

14. Also introduced in Finance Act 2000, EMI offers more generous tax-advantaged share options to help small, higher risk independent trading companies recruit and retain the high calibre people they need to grow and succeed. EMI is open to qualifying companies or groups with gross assets not exceeding £30million (increased from £15million on 1 January 2002).
15. The main features of EMI are that:
  - Each employee can be granted options over shares worth up to £120,000 at date of grant;
  - Companies can have up to £3million of shares under EMI option at any one time;
  - Nil cost and discounted options can be used (though there may be tax and National Insurance implications).
  - The maximum size of qualifying companies is 250 full-time equivalent employees.
16. EMI options are discretionary. Qualifying companies can choose to grant EMI options to any number of employees (working for them, a parent, or a qualifying subsidiary) whom they employ for at least 25 hours per week or 75 per cent of their working time and who have no material interest in the company.
17. No income tax or National Insurance is chargeable on either the grant or exercise of EMI options if: the options are exercised within 10 years of grant; the exercise price is the market value of the shares at the date the option is granted; and the company and employee qualifies for EMI throughout the period from the grant to exercise. If the option is granted at a discount, the amount of the discount is normally taxed on exercise and National Insurance may be payable.
18. In 2007-08 2,830 companies granted EMI options to their employees, a 0.7 per cent increase over the previous year. The number of employees granted these options however recorded a 2 per cent decrease, to 26,400. The average value of shares over which options were granted continued to rise, achieving a 4 per cent growth. The number of employees exercising their options registered a 19 per cent growth rate to 8,800. The annual estimated cost of income tax and National Insurance contributions reliefs remained stable. The different characteristics of EMI have led to different trends from the other schemes in the current economic climate.

## **Approved Profit Sharing Schemes**

19. Special tax treatment for share awards to employees under APS schemes started in 1978, but was phased out following the introduction of Share Incentive Plan. No new profit sharing schemes were approved after 5 April 2001. Awards under existing schemes ceased by 31 December 2002, although employees continue to hold tax-advantaged shares from past appropriations.

## **Discretionary Share Options Schemes**

20. Tax relief for Discretionary Share Option Schemes was introduced in 1984 and ceased in 1996, when no further options could be granted. Employees were given the right ('option') to buy shares at an exercise price fixed when the option was granted. Granting of options under these schemes was discretionary in that the company was free to decide which employees or full time directors could participate. Options did not have to be linked to any kind of savings arrangement and employees were not obliged to exercise their options. The value of options that could be held by an individual was limited to the greater of £100,000 or four times the individual's salary for the current or preceding year.

## **C. TRANSFERS INTO AN INDIVIDUAL SAVINGS ACCOUNT**

21. Employees who acquire shares from an approved all-employee share scheme (i.e. Approved Profit Sharing scheme, SAYE Share Option Scheme, or Share Incentive Plan) may transfer them directly into a stocks and shares component of an Individual Savings Account (ISA). ISA managers cannot

accept shares acquired via tax-advantaged discretionary share option schemes (i.e. Discretionary and Company Share Options and Enterprise Management Incentives).

22. Employees' shares must be transferred into an ISA within 90 days of emerging from the scheme. The aggregate market value of the shares when transferred must be within the normal annual ISA subscription limits. There is no charge to capital gains tax on shares transferred. Prior to the introduction of ISAs, from 1992, shares acquired via approved all-employee schemes could similarly be transferred into a single company Personal Equity Plan.

#### **D. NOTES ON THE STATISTICAL TABLES**

23. The information in the 'Companies with tax-advantaged employee share schemes' table matches together the company names from the different types of share scheme returns to give statistics on scheme participation at a company level. Totals in this table may not match the numbers of schemes or plans shown in the tables for each individual scheme, as each company may have more than one of each type of scheme.
24. For SAYE, CSOP and SIP tables the measure used to monitor the number of schemes is the 'number of live schemes at the end of the financial year'. A 'live' scheme can be defined as one that has been approved to run by HMRC and has neither ceased nor had its application withdrawn. For EMI schemes the 'number of companies that granted options' is used.
25. No reliable estimates are available of the total number of employees who have participated in SAYE, CSOP or SIP schemes overall, or in any given year. This is because the data manually captured on the approved schemes from the paper returns are aggregate totals for a particular scheme in a given year. As some employees have participated in multiple schemes in multiple years, adding together the annual totals would overestimate the number of employees with shares and/or options.
26. The tax relief cost of the tax advantaged schemes is estimated by calculating the taxable charge that would have been incurred had the same shares been appropriated or options exercised with no tax advantages. The cost of relief for SIP is calculated by applying an average marginal income tax rate to the value of shares appropriated to employees less the value of shares that come out of the plan without tax relief during the year. Similarly, for other schemes with tax-advantaged options, the cost of relief is calculated by multiplying the value of gains realised by employees who have exercised options during the year by an average marginal income tax rate. The statistical tables also include the cost of National Insurance Contributions (NICs) relief awarded by HMRC which is similarly calculated using a figure for the average marginal NICs rates. The estimates of income tax and NICs reliefs do not take into account any CGT that may be due on disposal of the shares.
27. As well as tax advantaged schemes, companies can also operate "unapproved" share and share option schemes, which are subject to PAYE and National Insurance. The Statistical Tables do not include any information on unapproved schemes.

#### **E. FURTHER INFORMATION AND UPDATES**

28. Contact details of the statistician responsible for the data we hold on employee share schemes are available at [http://www.hmrc.gov.uk/stats/update\\_calendar/enquiry\\_2.htm](http://www.hmrc.gov.uk/stats/update_calendar/enquiry_2.htm).
29. Details of scheduled updates to National Statistics on employee share schemes become available at <http://www.hmrc.gov.uk/stats/updates/index.htm>.
30. This note is to accompany the Statistical Tables. For detailed guidance and queries on employee share schemes please go to <http://www.hmrc.gov.uk/shareschemes>.