

# Profit-Related Pay Schemes

## A. Introductory Note

1. Profit-related pay (PRP) is that part of pay which varies with changes in the profits of the business in which the employee works. Since 1987, any employer, in business to make profits and not under the control of central or local government, has been able to register (subject to certain conditions) a profit-related pay scheme for employees who pay tax under Pay-As-You-Earn. The scheme need not cover the whole of the business and the employer may register different schemes for any part of his activities for which he can produce a separate profit and loss account. But the number of employees in the scheme must be at least 80 per cent of those working in the part of the business it covers. The employer may choose whether new recruits are included.
2. Initially, tax relief was given on one-half of profit-related payments up to a limit of the lower of £3,000 or 20 per cent of the employee's pay in the profit period to which the PRP relates. The cash limit was increased to £4,000 in 1989. Tax relief was increased in 1991 to the whole of the PRP payment up to the lower of the 20 per cent of pay or £4,000 cash limit.
3. The Finance Act 1997 provided that the income tax relief for PRP is to be phased out over a three to four year period. For profit periods beginning between 1 January 1998 and 31 December 1998, the ceiling on relief was reduced from £4,000 to £2,000; for periods beginning between 1 January 1999 and 31 December 1999 it is reduced to £1,000. No relief will be available for profit periods beginning on or after 1 January 2000.

## B. Enquiries and Further Information

4. Contact details for enquiries about statistics on approved employee share schemes and profit-related pay is given in the ['Update calendar and enquiry points' page](#).