Share Incentive Plan

Share Incentive Plans (SIPs) enable employees to acquire and hold shares in their employing company (or parent company) in three ways:

Free Shares	Partnership Shares	Matching Shares
Up to £3,600 worth of shares can be awarded to employees each year, either on the same terms or on the basis of performance	Employees can contribute up to £1,800 per year from pre-tax and pre-national insurance contribution earnings to buy their company's shares	Companies can match each Partnership Share with up to two Matching Shares

In addition, cash dividends can be reinvested to buy further Dividend Shares.

SIPs have valuable tax advantages and considerable flexibility to meet a variety of company objectives. They can be made similar to the share award and share purchase arrangements operated in many other countries.

The main SIP provisions are summarised below.

Eligibility

All employees, including part-timers, must be eligible to participate if they are resident in the UK and have been continuously employed for a qualifying period of not more than 18 months (6 months in the case of an offer of Partnership Shares with an accumulation period – see below).

Free Shares

Free Shares worth up to £3,600 may be awarded to every participant in each tax year.

The shares must be allocated to employees on the 'same terms', which allows entitlements to vary in proportion to remuneration, length of service or hours worked.

Alternatively, the number of Free Shares awarded may be varied by reference to the performance of business units. The performance measures must be fair and objective measures of the performance of the business units. Participants must be notified of the performance targets for their own business units and, in general terms, of the targets for other units.

Partnership Shares

Eligible employees can agree to deductions from their salaries to purchase Partnership Shares. Plans can allow for one-off or monthly purchases of shares at full market price. Alternatively, there can be an accumulation period of up to 12 months. If there is an accumulation period, the price paid for the shares must be one of the following:

- the market price at the beginning of the accumulation period;
- the market price on the acquisition date; or
- the lower of the above two prices.

Salary deductions cannot exceed the lower of:

- £1,800 in any year (eg £150 per month); and
- 10% of the employee's taxable earnings.

If a minimum employee contribution is specified, it must not be greater than £10.

1 Bengal Court, Birchin Lane, London, EC3V 9DD
t: 020 7283 7200 f: 020 7283 4119
e: info@mm-k.com www.mm-k.com

Employee contributions are made from pre-tax and pre-national insurance contributions (NICs) earnings. Partnership Share Agreements must include information about the possible effect of these reduced NICs on the entitlement of certain lower-paid employees on social security benefits, statutory sick pay and statutory maternity pay.

Matching Shares

If Partnership Shares are offered, companies can (but are not obliged to) match the employee deductions by awarding them free Matching Shares. The Matching Shares must be awarded on the same day as the Partnership Shares are acquired for the employees.

The number of Matching Shares awarded must not exceed two for each Partnership Share. There is no lower limit to the ratio - for example some companies offer one Matching Share for every two Partnership Shares.

Dividend Shares

Cash dividends received for plan shares may be paid directly to the employees or reinvested to buy Dividend Shares, which are held in the SIP.

Holding period for shares

Participants must be bound by contract with the company to leave their Free Shares and Matching Shares with the plan trustees for a holding period, which must be at least three years and no more than five years from their award date. The holding period for Dividend Shares is three years. However, participants may accept takeover offers for their shares during the holding period.

Partnership Shares may be withdrawn from the plan by participants at any time (but see the tax implications below).

Participants can choose to leave their shares in the plan after the end of the holding period and continue to benefit from the tax advantages.

Leaving employment

If participants cease to be employed by any group company for any reason, then they will be deemed to have withdrawn their shares from the plan. An income tax and NICs liability may arise (see below).

Forfeiture of shares

Plans may, but need not, provide that Free Shares and Matching Shares will be forfeited if the participant leaves employment of the group within a specified period. Plans may also provide that Matching Shares are forfeited if the corresponding Partnership Shares are withdrawn from the plan.

Tax implications for participants

Employee contributions to purchase Partnership Shares are from pre-tax and pre-NICs earnings, which means the shares cost less in net pay.

Employees are not liable to any income tax or NICs when Free Shares, Matching Shares or Dividend Shares are awarded to them.

1 Bengal Court, Birchin Lane, London, EC3V 9DD
t: 020 7283 7200 f: 020 7283 4119
e: info@mm-k.com www.mm-k.com

When shares are withdrawn from the plan or the participants cease to be employed by any group company, there will be an income tax liability on the following amount:

Timing of withdrawal	Free Shares or Matching Shares	Partnership Shares	Dividend Shares
Within 3 years of award/acquisition	Market value of the shares when they are withdrawn	Market value of the shares when they are withdrawn	The amount of the dividend used to acquire the shares
Between 3-5 years	Lower of market values at award date and at withdrawal	Lower of money used to acquire the shares and the market value at withdrawal	No charge
5 years or longer	No charge	No charge	No charge

Except in the case of the Dividend Shares, the income tax will be deducted through PAYE and there will also usually be a NICs liability.

These income tax charges do not apply, however, if employees leave employment by reason of:

- injury or disability,
- redundancy,
- a transfer to which the Transfer of Undertakings (TUPE) regulations apply,
- the employing company leaving the group,
- retirement, or
- death.

Tax relief may also apply if employees accept a cash takeover offer for their shares in cases where there is no alternative offer of shares or loan notes.

Participants will not incur any income tax or NICs liability in respect of shares which are forfeited.

There is no capital gains tax (CGT) charge in respect of the gains accrued by employees while their shares are held in the plan. The base cost for CGT purposes is the market value at the time when the shares are withdrawn.

Administration

SIPs are constituted by a Trust Deed and Rules and the shares are held in the trust on behalf of the employees. The Company will need to select a UK-resident Trustee and Administrator for the plan.

SIPs no longer need to be formally approved by HMRC before they are implemented. Instead, they must be registered online and companies must certify that they meet the relevant statutory requirements. Companies must also submit an annual return to HMRC through the online reporting system.