

Savings-Related Share Option Scheme

A Sharesave or Save-As-You-Earn (SAYE) share option scheme combines a share option with a savings contract, so employees can save the funds to buy shares in their company. These plans have valuable tax advantages.

With effect from 6 April 2014, the process for HMRC approval was replaced with online registration and self-certification by companies. An annual return for each tax year must also be made online to HMRC.

How they work

Savings contract

Employees are invited to save a regular amount with a bank or building society by deduction from their (after-tax) pay for a period of three or five years. At the end of the savings period, they are paid a tax-free bonus, whose amount is fixed at the start.

However, due to low market interest rates, the bonus rates are currently set at zero.

Share option

At the time when employees start the savings contract they are granted options over the maximum whole number of shares which can be bought at the end of the three or five years with the total prospective savings, including any bonus. The price to be paid for the shares (the exercise price) must be at least 80% of the share price at the date of grant of the option.

Tax advantages

Employee

- No income tax is payable on grant of the option
- No income tax is payable on exercise of the option (except in certain exceptional circumstances)
- There is no national insurance contributions (NICs) liability
- On disposal of the shares there is a potential capital gains tax (CGT) liability on the difference between the market value of the shares on disposal and the price paid for the shares. However, for many employees the gain will come within the annual CGT exemption (£11,700 for 2018-19)
- There is no tax on any bonus payable through the savings contract.

Employer

- No employer's NICs are payable on grant or exercise of the option
- The employing company can claim a deduction for corporation tax purposes for the difference between the market value of the shares at the exercise date and the amount paid by the employee
- The costs of setting up the plan are also allowable deductions.

Example

An employee agrees to save £100 per month for a five-year period.

The total savings at the end of the period will amount to 60 monthly contributions:

$$£100 \times 60 = £6,000.$$

At the time of grant of the share option, the market price of the shares is £10.00. The exercise price offered is 80% of this - that is £8.00 per share. The total number of shares under option is therefore:

$$£6,000 \div £8.00 = 750 \text{ shares (rounded down to whole number).}$$

The employee is granted an option to buy 750 shares at £8.00 per share. This option can be exercised within a six-month period starting five years after the start of the savings contract.

If the share price has grown to £12.50 on the date of exercise, the employee will be able to purchase shares worth:

$$£12.50 \times 750 \text{ shares} = £9,375$$

but will only pay:

$$£8.00 \times 750 = £6,000.$$

The employee will therefore make a gain of £3,375, assuming the shares are sold immediately.

Main conditions of SAYE legislation

Eligibility

All UK resident employees of participating companies who meet a length of service requirement (not exceeding five years), including part-timers, must be invited to participate in each offer on similar terms.

Minimum and maximum savings

Each employee may save between £5 and £500 each month. The £500 limit applies to all of the employee's savings contracts existing at any time. (A lower upper limit may be set for individual offers.)

Exercise price

The price payable for the shares on exercise of the option must be stated at the date of grant and cannot be less than 80% of the share price at grant. The number of shares and exercise price can be adjusted for any variations in share capital.

Timing of exercise

Options can be exercised during a six-month period starting on the bonus payment date - ie three or five years after the start of the savings contract. (The employee must decide the length of the option at the start.)

Early leavers

If the employee leaves employment because of injury, disability, redundancy or retirement, TUPE transfer or on the employing company leaving the group, options can be exercised, with tax relief, within six months of the leaving date, but only to the extent of the employee's savings up to the exercise date.