

The Share Incentive Plan – an opportunity for all employees?



The Share Incentive plan or SIP was first established in 2000, providing companies with flexibility to tailor the plan to meet the needs of their business. For employees it offers the opportunity to invest their pre-tax salary to buy shares in the company for which they work. These are called Partnership shares. In addition, many companies will offer the added incentive of matching shares to their employees. These Matching shares are given as a ratio of Partnership shares and can be up to a 2:1 match. Companies may also offer up to £3,600 of free shares in any tax year. Employees can invest up to either £1,800 or 10% of salary for the tax year, whichever is lower. Whilst employee contributions are generally taken monthly, some companies allow employees to top up their contributions or make one off contributions from their annual bonus, often this may allow lower paid employees to maximise their contributions. Employees become shareholders from the first purchase and are therefore subject to market fluctuations but also may have the opportunity to vote at the AGM and receive dividends.

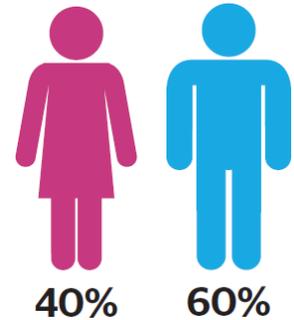
Partnership shares can be removed from the SIP at any time, but will incur Income tax and NI until the 5th anniversary of each purchase. Matching and Free shares can be sold after they have been held for 3 years but are also subject to Income Tax and NI until the 5 year mark, whereas dividend shares can be accessed after 3 years free of tax. It's also worth noting that shares sold directly from the SIP do not attract Capital Gains Tax and do not count towards an individual's annual allowance.

What could be better? Well, we at ProShare think the scheme could be improved upon... since its inception in 2000 not much about the plan has changed at all... In 2000 the price of the average home was around £137k the average salary was £26,500 and the cost of a pint of beer was £2.00. Incidentally, the average salary today in the UK is around £35,000. House prices have definitely risen as has the price of beer!

We think that the 5 year tax/holding period is actively discouraging participation and adds both an unhelpful complexity to the plan, and further communication challenges. Younger employees whose average tenure continues to decrease may not join the plan as they feel they may not still be at the firm in 5 years time. The days of working for one or two employers for the entire length of a career are largely behind us. The average UK employee's tenure per employer is currently 5 years [according to life insurance firm LV]. For those aged 25 to 34, the average is 2.8 years [source: BBC].

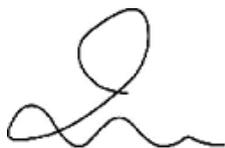
ProShare's 'Attitudes to Employee Share Ownership' research study released in January 2018 found that 16% of all non-participants surveyed cited the reason 'I won't be with the company long enough to benefit' as their reason for not joining the plan.

In addition to this research, ProShare also produce an annual SIP & SAYE Report, detailing key findings about both plans. In the latest report, we found that at the end of 2018 there were 525,086 employees contributing to partnership shares in a SIP and their average contribution was £98.52 per month. Interestingly, the split between male and female participation was 60/40. Again, it has been suggested by some that were the holding period to be reduced to 3 years, this might also encourage increased participation by female employees, who otherwise might have seen the 5 year horizon as too long if they are thinking of starting a family.



ProShare are actively lobbying for the simplification of the SIP - the differing tax treatments for Free, Partnership and Matching shares up to 3 years, and between 3 and 5 years are confusing and hard for many employees to understand. This makes the plan challenging for employers to communicate effectively to their workforces, and in turn lessens take-up rates and undermines the plan's primary intention to create and foster broad-based employee share ownership. ProShare is committed to the removal of the 5 year holding period, and the retention of a single, simpler to understand, communicate and administer 3 year holding period for all SIP shares.

If you would like to find out more about the SIP or ProShares Lobbying objectives please contact us at team@proshare.org



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