

Factsheet – Share Incentive Plans

The Share Incentive Plan (also known as ‘SIP’) came into existence with the Finance Act of 2000. It is one of two all-employee tax-advantaged share plans in the UK, the other being Save As You Earn or ‘SAYE’ (see our separate factsheet for details).

SIP in a nutshell

The Share Incentive Plan is a tax-advantaged plan that offers Income Tax and National Insurance advantages for employees and companies, provided the plan meets the requirements of Schedule 2 of the Income Taxes (Earnings & Pensions) Act 2003 and is also registered and reported via HMRC’s ERS Online filing service. Introduced in the Finance Act 2000 after an intensive consultation process, it is a broad-based plan designed to encourage more companies to offer shares to all their employees on a tax-efficient basis.

The SIP legislation provides for four types of Plan shares to be used:

- Free Shares – employers can give each employee Free Shares worth up to £3,600 each year, free of Income Tax and National Insurance.
- Partnership Shares – employees can use up to £1,800 a year from pre-tax and pre-National Insurance salary to buy Partnership Shares. An annual limit means that employees can top up their contributions in months where they receive a bonus, for example
- Matching Shares – employers can give Matching Shares at a ratio of up to two Matching Shares for each Partnership Share bought by the employee.

Various combinations of types of Plan shares can be used, for example Free Shares only, or Partnership with or without Matching Shares, to suit the business needs of the company.

As well as being able to choose between the above types of plan shares to build a plan that suits its business needs, employers can also include other optional features, such as:

- Eligibility criteria – companies may prescribe a period of up to 18 month employment before employees become eligible to participate in a SIP.
- Performance-related awards – companies may link the award of Free Shares to performance measures.
- Dividend Reinvestment Plans (DRIPs) – companies may allow employees to use their dividends to purchase further Plan shares instead of receiving cash. These are called Dividend Shares. The company can choose to offer the DRIP on an optional or compulsory basis.

- Forfeiture – companies may make employees give up some or all of their Free or Matching Shares if they leave, for certain reasons, within three years of the award date.
- Holding periods – Free and Matching Shares must stay in the plan for three years but companies can require employees to hold these in the plan for up to five years. Dividend Shares need only be held for three years.

Compliance

Companies offering a SIP will need to register their scheme and certify that it meets the requirements of all relevant legislation via HMRC's ERS Online service. They must also complete an annual share scheme return. More information may be found here:

<https://www.gov.uk/guidance/tell-hmrc-about-your-employment-related-securities>

Further information on compliance requirements may be found in HMRC's share schemes manual here: <https://www.gov.uk/hmrc-internal-manuals/employee-tax-advantaged-share-scheme-user-manual/etassum20000>

HMRC's specimen SIP rules may be found here:

http://www.hmrc.gov.uk/gds/etassum/attachments/etassum28220_sip_rules.doc

HMRC's specimen trust deed may be found here:

http://www.hmrc.gov.uk/gds/etassum/attachments/etassum28230_specimen_trust_deed.doc

Key stakeholders involved in running a SIP

At the plan issuer company: HR, Finance, Company Secretariat, Payroll, Internal Communications.

External stakeholders: legal and tax advisers to the company, plan administrator, trustee, design and/or communication consultants.

Sources of help and support

If you and your team are new to running SIP or share schemes of any kind or if you wish to extend or refresh existing knowledge, ProShare can help!

- We run regular training sessions for in-house teams and individuals.
- We can help you benchmark existing share schemes against our Annual SAYE & SIP Report.
- We can help you find a plan administrator or advisor.

Do get in touch with us at team@proshare.org