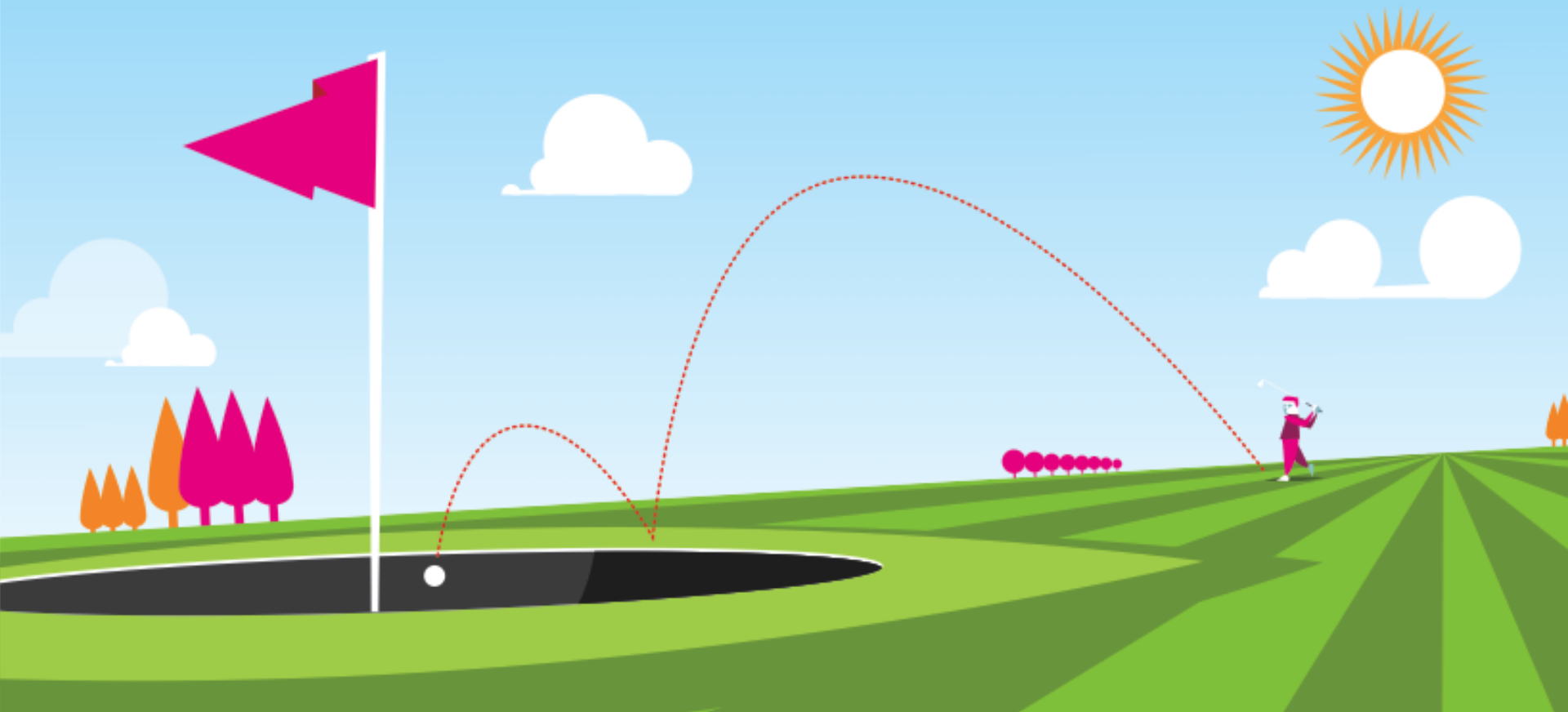


Welcome



**Give your business
an unfair advantage**



Employee Incentives

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Employee incentivisation

- Taxable and tax-free benefits
- Share option schemes (approved and unapproved)
- Pensions
- Alphabet shares for multiple shareholders
- Tax schemes

Emoluments

- Consideration received as money or 'money's worth' is in the main taxable as salary
- Employee's will be charged to income tax at the applicable rate which can be 20%, 40% and 50% for additional rate taxpayers
- National insurance contributions may also be due at 12% up to the upper limit and 2% thereafter (after April 2011)
- Employers will also suffer under the NIC regime and be taxable at 13.8% although they will obviously benefit from a corresponding corporation tax deduction
- Example £10,000 bonus
 - Basic rate payer – 20% - £2,000 tax; £1,200 employer's NIC £1,380
 - Higher rate payer – 40% - £4,000 tax; £200 employer's NIC £1,380
 - Additional rate payer – 50% - £5000 tax; £200 employer's NIC £1,380

Benefits – Rewards other than salary

- Non-taxable benefits:
 - Subsidised staff canteen
 - Provision of bicycles/safety equipment
 - Job related training (including professional qualifications)
 - Entertaining up to £150 per employee
 - Onsite childcare facilities or first £55 of employer arranged qualifying childcare or childcare vouchers (per week)
 - Onsite sport & recreation facilities
 - Private use of a company mobile phone
 - Incidental private use of a pool car

Benefits – Rewards other than salary

- Long service awards – for service in excess of 20 years - £50 per year of service
- Travel expenses within the mileage allowance payments
- Death in service
- Accommodation if necessary for proper performance of duty
- Employer may apply to HMRC for a dispensation to cover P11D expenses which would be exempt for the employee

Benefits – Rewards other than salary

- Taxable benefits
 - Cars (taxed according to CO₂ emissions to encourage environmentally friendly vehicles)
 - Fuel benefit (based on CO₂, no charge for electric cars)
- Healthcare packages (dental, private healthcare)
- Living accommodation
- Relocation expenses in excess of £8,500
- Beneficial loans
- Use of company assets

Incidental benefits/expenses can be covered by PAYE Settlement Agreement 'PSA'

Share option schemes

- Share option schemes can be tax efficient for the employer and employees
- Motivate and reward employees by giving them ‘ownership’
- The share scheme can be as complicated or as simple as the company requires
- Good method of beginning the process of succession
- The company can be protected by transferring the shares in a trust and not directly into the employee’s hands
- Number of approved and unapproved share options schemes

Share option schemes

- HMRC Approved Schemes
 - Share Incentive Plans (SIPs)
 - Savings-related shares schemes (SAYE)
 - Company Share Option Schemes (CSOP)
 - Enterprise Management Incentives (EMI)
- Unapproved Schemes
 - Award of existing shares
 - Employee Benefit Trust (EBT)

Share option schemes – Share Incentive Plans ('SIPs')

- UK Trust acquires shares
- Trustees award shares to employees and hold the plan shares on behalf of employees
- Employees can obtain shares in four different ways
- Conditions in respect of the company, the shares and participating employees
- Significant tax relief available to employees and NIC savings for employers
- Employer entitled to CT relief on cost of setting up and running scheme and the market value of any free shares given to employees

Share option schemes – Save As You Earn ('SAYE')

- Share acquisition scheme, linked to an employee saving scheme
- Gives selected employees, usually directors and senior executives options to purchase shares
- Option price agreed in advance and shares purchased at 3, 5 or 7 year intervals
- Savings are accumulated between date of option and exercise which are used to purchase the shares
- Maximum and minimum saving thresholds
- At end of contract period 'tax free' bonus paid to purchase shares
- CGT on eventual sale of shares
- Applicable for quoted or unquoted companies

Share option schemes – Company Share Option Plans ('CSOP')

- Applicable for quoted companies for select employees
- Gives option to buy specified number of shares at a future date
- Shares must not be worth >£30,000 at grant date
- Share options must be granted for market value at date of grant and options cannot be exercised before three years or after 10 years
- No employment taxes on receipt of shares
- CGT payable on disposal

Share incentive Plans - EMI

- Applicable for unquoted small trading companies
- Qualifying conditions for the company, the shares and the individual
- Options grant to specific employees for a price agreed at the date of grant
- If exercise price is market value at grant date, no employment taxes arise on receipt of shares
- Consider gifting key employees 5% to utilise Entrepreneur's Relief (see later)

Share option schemes – Unapproved schemes

- No mitigation of employment taxes for the employee/employer
- No employment taxes are paid on grant of options, nor charge payable on exercise if market value is price paid
- Employment related securities legislation introduced to counter tax leakage
- Potentially suffer income tax on sale rather than capital gains tax
- Shares can be transferred to an Employee Benefit Trust ('EBT') which can warehouse shares for benefit of employees
- Phantom schemes
- Nil paid shares, growth shares

Share option schemes – Sale of shares

- Sale of shares triggers a chargeable event for CGT
- Relief available whereby CGT charged at 10% up to gains of £5,000,000 if:
 - The shareholder is an employee
 - Shareholder owns >5%
 - Shares have been held >12 months

Pension – Tax free savings?

- For 2010/11 - higher paid individuals (over £130k) taxed at 20% for any contributions over £20,000 and above 'normal' contribution levels
- For 2011/12 – tax free limits reduced to £50,000, can use brought forward unused allowance from the prior 3 years subject to a maximum £150,000
- Salary sacrifice allows salary to be taken as pension contribution before tax and NICs (subject to above limits)
- Can ring-fence funds outside of the company by using unapproved pension funds – EFRB's

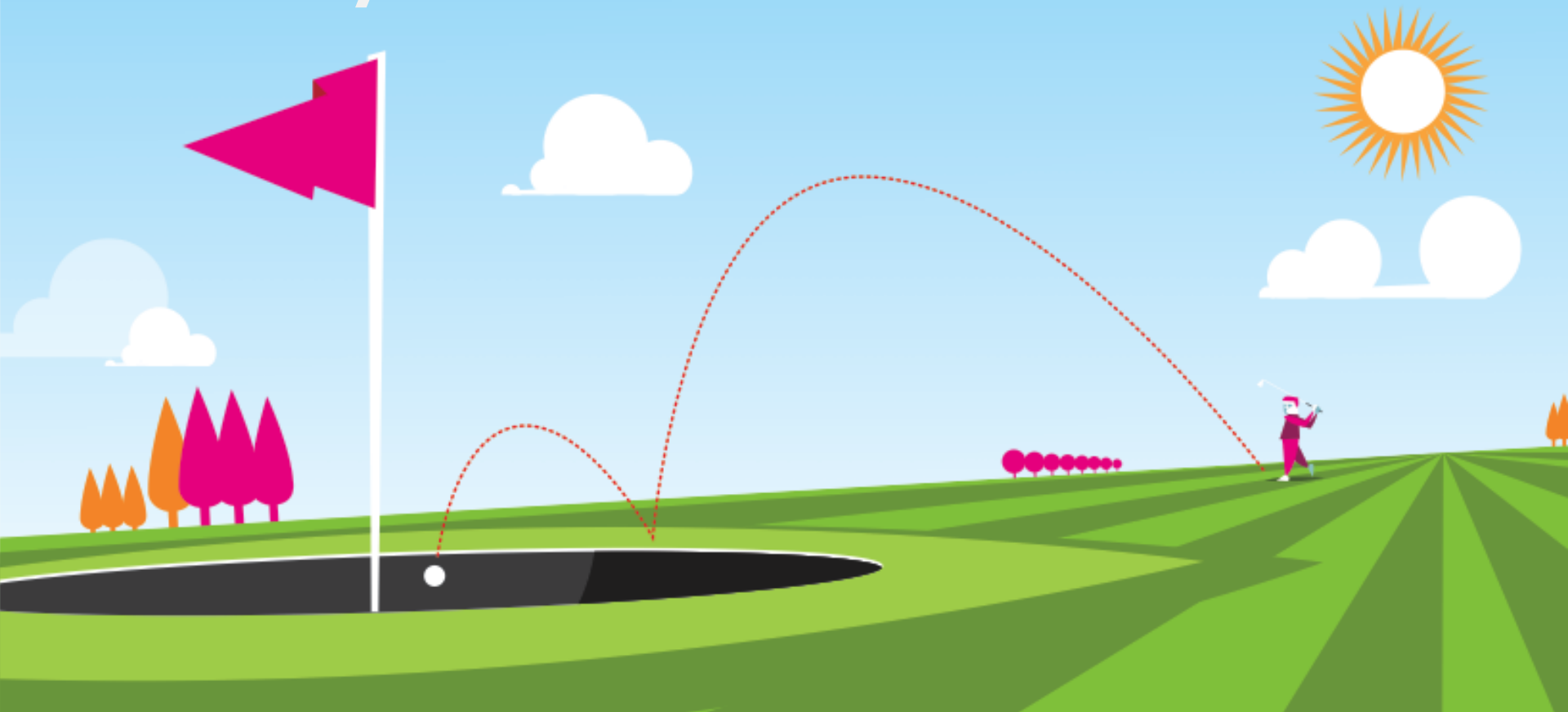
Alphabet shares

- Allow each shareholder to own a different/ distinct class of share i.e. A, B, C, D
- Applicable mainly for unquoted businesses
- Allows different dividends to be declared on each share class
- All shares have to rank pari passu to avoid risk of income tax charge
- Right to income?
- 'Artic systems' case – income shifting

Tax planning

- Company tax planning schemes – profit extraction for individual employees/directors
- Very provocative to HMRC
- Mitigate the individuals tax liability completely, subject to HMRC challenge

Thank you



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