

SHARE INCENTIVE PLAN (“SIP”)

Key Features of the Plan

1. Employees can buy ‘**partnership shares**’ using their pre-tax monthly earnings.
 - No income tax or national insurance contributions (NICs) are payable when the shares are bought
 - No income tax or NICs will be payable in the future if the employee leaves the shares in trust for five years
 - Employees are permitted to purchase up to the £1,500 annual limit of partnership shares at any time within the year
 - Shares may be awarded monthly or at the end of an accumulation period which cannot exceed 12 months.
2. The company can give employees up to two ‘**matching shares**’ for each partnership share the employee buys.
 - No income tax or NICs are payable when matching shares are awarded
 - No income tax or NICs will be payable in the future if the employee leaves the matching shares in trust for five years
 - If partnership shares are ‘matched’ on a two-for-one basis, that gives an annual limit of £3,000 worth of matching shares (if there is an accumulation period, the value of the shares could exceed £3,000)
3. The company can give up to £3,000 worth of ‘**free shares**’ each year to an employee (regardless of whether partnership shares are bought or matching shares are awarded).
 - No income tax or NICs are payable when the free shares are awarded
 - No income tax or NICs will be payable in future if the employee leaves the free shares in trust for five years.
4. Dividends can be reinvested as ‘**dividend shares**’ up to an annual limit of £1,500 per year.
 - No income tax will be payable in future on the dividend shares if the employee leaves the shares in a trust for three years
 - NICs never apply to dividend shares
5. Leavers can be required to forfeit their free and matching shares on termination of employment during the first three years after allocation, if the company wishes.
6. The allocation of free shares does not have to be on ‘same terms’. With effect under an HMRC approved all employee scheme, there can be different levels of allocation based on fair and objective performance criteria eg terms, divisions, individuals.
7. All shares purchased, awarded or invested under the Plan must be held by a UK resident trust.
8. HMRC must approve the Plan before the company can operate it.



Tax Treatment on Removal Shares From Plan Within 5 Years

1. The tax rules encourage shares to be held in trust for at least 3 years, with maximum tax relief available after five years.
2. Employees who remain with the company may not remove their free or matching shares for three years. Employees who remove their shares between three and five years from the date of allocation will pay income tax and NICs on the lower of the initial value of the shares and the value on removal. The company can select a longer holding period than three years but not more than five years.
3. Employees who leave and do not forfeit their shares must remove the shares from the Plan on leaving. Unless leaving in special circumstances such as injury, disability, redundancy, TUPE transfers or sale of the employing company, 'retirement', or death, the employee will pay income tax and NICs on:
 - the market value of the shares on the date of their removal if this is within three years, or
 - the lower of the value at award and the value on removal if this is after three years but before five years.
4. There is no statutory time limit within which shares must be sold or transferred out of the trust when employees leave. This, however, cannot be used to avoid an income tax liability.
5. Employees may remove partnership shares at any time. If they do so within the first three years, they will pay income tax and NICs on the market value of the shares when they are removed. If they remove the shares after three years but before five years, they will pay income tax and NICs on the lower of the award value and the value at removal. There is relief from this for those leaving in special circumstances.
6. If an employee removes shares from the Plan and continues to hold them, the base cost for capital gains tax purposes will be the market value of the shares when they are removed from the Plan.

For more information please contact:

rashree.chhatrisha@mm-k.com



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