



Abbiss Cadres

Because business means people.

Tax Advantaged Share Plans
Savings Related Share Option Plan ("SAYE" or
"Sharesave")

BRIEFING NOTE



What is an SAYE?

A Savings Related Share Option Plan ("SAYE") is a tax advantaged all-employee option plan that offers significant tax advantages. Under an SAYE plan, employees are granted an option to acquire shares at a discounted price and enter into a savings contract, the proceeds of which are used to pay the option exercise price. Provided an option is held for at least three years, its exercise is free of income tax and National Insurance Contributions (NICs).

Main features

Discounted exercise price

The exercise price of an SAYE option may be set at a discount of up to 20% to the market value of the shares either at the time of grant or the time of invitation.

Savings contract

Employees are required to enter into a contractual savings arrangement by which they agree to save a specified amount monthly through direct salary deductions. Companies may offer either three or five year savings contracts, and a tax free bonus may be payable on completion of the relevant savings contract. The bonus rates are calculated in accordance with a mechanism prescribed by the UK tax authorities (HMRC) which is linked to market swap rates.

The number of shares under an option is equal to the shares that can be purchased with the accumulated savings and any bonus at the end of the savings contract at the exercise price.

The monthly amount saved must be between (currently) £5 and £500, and the amount payable each month cannot be changed once agreed.

Choices at the end of the savings contract

When the savings contract matures, the employee may either:

- exercise the option using the savings contributions and bonus (the employee has six months in which to do this); or
- have the savings and any bonus repaid.

Early exercise of options

Where an employee leaves the company before the savings contract matures for “good leaver” reasons it is normally permissible for the employee to exercise the SAYE option to buy shares with the accumulated savings. “Good leaver” reasons include death, injury, redundancy, retirement and a sale of the employing company or business out of the group. Exercise is permitted up to six months after the date of leaving (12 months in the case of death).

If an employee leaves in other circumstances, they may not be able to exercise the option and will instead receive the savings back plus any interest.

SAYE plans will usually also provide for the early exercise of options if there is a takeover or change in ownership of the company whose shares are subject to options.

Tax benefits

For employees

- No income tax or NICs are payable on the grant of an SAYE option.
- Provided that an SAYE option is exercised at least three years after the date of grant, no income tax or NICs will be payable when the SAYE option is exercised.
- Options exercised by good leavers less than three years after grant will not be subject to income tax or NICs.
- Options exercised early as a result of a takeover or change of ownership may, in certain circumstances, be free of income tax and NICs.
- The bonus and any interest earned during the savings period are not subject to tax.
- When the shares acquired under the SAYE option are sold, there will be a chargeable gain for capital gains tax purposes. However, if shares acquired under an SAYE plan are transferred into an Individual Savings Account (ISA) within 90 days of exercise, then there will be no liability to capital gains tax on a subsequent sale. In an ISA, dividends will be received tax free.

For employers

Provided certain conditions are satisfied, an optionholder’s employing company will benefit from a corporation tax deduction on the exercise of an option equal to the difference between the market value of the shares at exercise and the exercise price paid.

Key requirements

- All employees of specified group companies that have completed any qualifying period of service must be invited to participate in the SAYE plan.
- The SAYE plan must not be operated so as to favour higher paid employees.
- The shares must be (i) listed on a recognised stock exchange, or (ii) in an unlisted company that is under the control of a listed company, or (iii) in an unlisted company that is not under the control of another company.
- The shares must be part of the ordinary share capital, fully paid up and non-redeemable, and satisfy certain other requirements to ensure that they do not have less valuable rights compared to those held by non-employee shareholders.

Administration

Savings provider

Companies that wish to operate a SAYE plan will need to appoint a savings provider to hold the savings that are deducted from employees' salary each month. The savings provider may also assist with the administration of the SAYE plan.

Legislative compliance

There are strict legislative requirements governing the structure of the SAYE plan and how it is operated. Companies must register their SAYE plan with HMRC and self-certify that their SAYE plan is compliant with legislative requirements.

Tax reporting

Companies operating an SAYE plan need to file an annual return with HMRC by 6 July following the end of each tax year.

Why SAYE?

The SAYE plan is the most popular all-employee plan for UK listed companies. The discounted option price together with the savings contract make it a very attractive proposition for all categories of employees. The SAYE plan is relatively low risk, as even if the company's share price goes down employees can choose to get their savings back.

How can we help?

If you are considering putting in place a SAYE plan we can assist with:

- confirming whether you are eligible to operate a SAYE plan;
- drafting the plan rules and associated documentation;
- confirming compliance with the HMRC requirements for the purposes of the self-certification regime; and
- drafting participant communications including tax advice.

Our compensation and benefit services

We are independently recognised as leading experts in the design and implementation of share, phantom equity and other cash-based incentive plans for employees, executives and consultants in the UK and internationally.

A practical, multi-disciplinary approach ensures our clients receive a complete service providing fully thought through arrangements which are appropriate to their market and support the achievement of their commercial goals.

Our services range from design consulting, technical feasibility analysis, drafting and implementation to providing ongoing operational support, including advising on the impact of corporate transactions.

Our financial modelling service allows clients valuable transparency on the cash, tax and share dilution impact of proposed and adopted arrangements. We also offer share valuation services.

Client testimonials

"The team at Abbiss Cadres possess expertise that is second to none in relation to complex remuneration structures and share-based incentives that has proven invaluable to us in the execution of both IPO's and corporate transactions."

Corporate Partner, AM Law 100 firm

"Abbiss Cadres assisted Abbott Risk Consulting (ARC) Ltd in the design and implementation of an employee share scheme based on Enterprise Management Incentives (EMI). Their support was invaluable and went beyond the simple mechanics of EMI schemes. They helped us focus on our business needs and ensure the scheme we put in place would help us attract and retain staff. The scheme did just that and we have just enjoyed one of our best year's performance ever with low staff turnover and a motivated workforce. Guy Abbiss is an expert in his field and is a pleasure to deal with. I have no hesitation in recommending him and Abbiss Cadres LLP."

John Abbott, Managing Director, ARC

Abbott Risk Consulting (ARC) Ltd is an independent consultancy leading the field in the provision of consulting services and technical recruitment to the defence, transportation, marine and energy sectors.

Contact us

For more information on how we can help you, visit our website at www.abbisscadres.com or contact our team.

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