



## **Sharesave Fact Sheet**

### **Background**

The Sharesave scheme is also known as the Save As You Earn (SAYE) or Savings-Related Share Option Scheme, and was introduced under the 1980 Finance Act. There are currently 800 approved Sharesave schemes in operation costing the government £170m in tax & NIC relief (Source: HMRC June 2010)

### **General Features**

A Sharesave scheme is an arrangement under which an employee has the right (known as an 'option') to buy shares at a future date at a price determined shortly before the options are granted.

The company can discount the price of the shares by up to 20% off the market value. Shares can only be purchased with the proceeds of savings made under a special SAYE savings contract, set up with a bank or building society for a period of 3 or 5 years. The length of the option can be 3, 5 or 7 years - for the 7 year option savings are made for 5 years only, with the savings remaining in the account for the further two years. Savings are made by payroll deduction from participants' net salary, with the employer remitting them to the bank or building society.

### **Eligibility**

The scheme has to be open to all eligible employees of the company. A qualifying period of employment can be set but this must be no greater than 5 years. The majority of companies operating a Sharesave scheme operate on a much shorter eligibility period, to the extent that it is not uncommon to include all those employed as at the date of invitation (who continue to be employed to the grant date).

### **Limits**

There is a minimum savings amount of £5 per month, and a maximum of £250 per month across all existing SAYE contracts. At maturity (the 3, 5 or 7 year anniversary from the contract start date if no payments have been missed) a tax-free bonus is added to the accumulated savings. The bonus rates are set by HMRC in accordance with a formula linked to market rates.

The current bonus rates are shown below (with previous rates in brackets):

Type of Contract	Total Monthly Savings	Tax Free Bonus	Interest Equivalent
<b>3 year</b>	36 payments	0 x monthly contributions (0.3)	0% (0.54%)
<b>5 year</b>	60 payments	1.8 x monthly contributions (2.2)	1.16% (1.42%)
<b>7 year</b>	60 payments	4.9 x monthly contributions (5.2)	1.74%(1.84%)

The rates quoted are effective from 14 May 2010 - previous contracts were offered under different terms. If you require information relating to the previous rates, please contact us for details.

The Early Leaver Rate - for those who withdraw their funds after making 12 monthly contributions and where the first anniversary has been reached but before the maturity date is as follows:

Early Leaver Rate	From 14 May 2010	From 29 May 2009
	0.0%	0.36%

**Worked Example for a three year contract assuming:**

£40 per month  
 Market share price at Date of Grant: £1.25  
 Option price with 20% discount: £1.00  
 Market share price at maturity: £1.50

<b>Stage 1: Savings Contract - 3 years</b>	
Total savings at completion of contract: (36 x £40.00)	= £1,440
<b>Total savings</b>	<b>= £1,400</b>
<b>Stage 2: Calculation of option</b>	
Number of shares under option: (£1,400 / £1.00)	= 1,400
Value of shares at maturity (1,400 x £1.50)	= £2,100
Increase in value (£2,100 - £1,440)	= £660
% gain on original savings (£660 / £1,440 x 100)	= <b>45%</b>

## **Lapse of Options**

The option to purchase shares will lapse if the option holder closes the savings account and requests repayment of the savings before the end of the period of the contract.

If the employee misses more than 6 monthly contributions then the savings contract is deemed to have been suspended and any funds saved may be returned to the employee on the third or seventh anniversary. The employee can of course request repayment at anytime. The option to purchase shares would also lapse.

## **Maturity**

At the maturity of the option, employees have 6 months in which to exercise their options. The alternatives open to them are:

- Close the account and take the savings plus the tax-free bonus; or
- Close the account and use all of the proceeds to take up the option to purchase shares; or
- Close the account and take up the option in part (funds not used for the purchase of shares would be returned to the employee).

If an employee has missed any monthly payments (up to a maximum of 6 months) then the maturity date will be extended by the corresponding number of missed payments.

## **Taxation**

### **Income Tax**

There is normally no tax liability when the employee purchases the shares. However, in the event of an early exercise of options (resulting from the Company that the employee works for being taken over for example) within 3 years from the date of grant, the employee may have to pay income tax on any gain.

### **Capital Gains Tax**

After exercise there may be a liability to Capital Gains Tax (CGT) on the gain between the sale price and the exercise price. If the employee makes a profit on shares when he/she sells them, the employee may have to pay CGT on part of that profit. In general terms, the employee is liable to pay CGT on any Capital gains made in the course of a year.

From 22 June 2010 the flat rate of 18% only applies to basic rate tax payers. Higher rate tax payers will now have to pay a new rate of 28% CGT. Any gains less than the annual exempt amount (AEA) - £10,100 for the 2009/2010 tax year - are free from CGT.

From 6 April 2008 all shares of the same class in the same company will be treated as forming a single asset (a 'share pool'), regardless of when they were originally acquired. However, different rules apply to assets acquired and sold on the same day and under "bed and breakfasting" arrangements.

When calculating CGT you are able to add in any costs of buying or selling the shares (e.g. stamp duty on purchase and broker's commission on both purchase and sale) in arriving at the gain you have made. If you have been unlucky enough to make a loss on the shares, you can also offset this loss against any other gains you have made in that tax year.

It is worth noting that shares released from the scheme can be transferred into an ISA as well as into a Self Invested Pension Plan (SIPP).

**Example: CGT calculation regarding shares acquired through a Sharesave Scheme**

Date of acquisition	Number of shares	Cost of shares
1998	300	£1,500
2001	450	£2,345
2003	240	£1,800
2005	470	£2,200
2008	520	£2,550
Totals	1,980	£10,395

In this case the share pool comprises 1,980 shares with a base cost of £5.25 each (£10,395/1,980). Sale of 1,552 shares at £12.50 each.

Total proceeds:	1,552 x £12.50 =	£19,400
Less base cost:	1,552 x £5.25 =	£8,148
Net profit:	£19,400 - £8,148 =	£11,252
Less AEA:		£10,100
Taxable gain:	£11,252 - £10,100 =	£1,152
CGT payable Basic rate:	£1,152 x 18% =	£207.36
CGT payable Higher rate	£1,152 x 28% =	£322.56

**Dividends**

As only options are held then there are no dividend payments until the shares are received upon exercise of the option.

**Cessation of Employment**

If an employee leaves the company then the option can no longer be exercised (unless he/she leaves due to special circumstances). He/she can either carry on saving and take the cash and bonus at the end of the savings period, or can close the account and take the payments made together with any accrued interest. Interest is payable at the rate determined by the HM Treasury, except if the account is closed before the first anniversary of the contract start date when no interest is payable.

If an employee leaves due to special circumstances (for example leaving due to redundancy, injury or disability) then he/she has 6 months in which to exercise from the date of leaving. He/she can exercise up to the amount saved plus any accrued interest.

In some cases, dependant on the rules, such an employee will be able to make additional payments to their Sharesave account up until the exercise date.

If an employee dies then the option may be exercised by the personal representatives. In these circumstances, the option must be exercised in the 12 months following the death of the employee, or the maturity date, whichever is earlier. If the personal representatives choose not to exercise the option, the employee's savings, plus any bonus or interest due, will be paid to the estate.

### **Set Up and Operation**

A share scheme adviser can help the company with the setting up of the scheme and drawing up a set of scheme rules.

A savings carrier also needs to be appointed which must be an HM Treasury approved bank or building society. The carrier will undertake the administration of the savings contract and liaise with the Registrar when the options are exercised. The carrier may also help with the communications to employees that are very important if the scheme is to be successful. An option register can be maintained either by the carrier, a Share Plan Administrator or alternatively in-house.

### **Benefits Associated in Operating a ShareSave Scheme**

#### **Employer:**

Shares only need to be allotted at the time of exercise.

The costs incurred in setting up an approved scheme are allowable as a deduction in computing the company's profits for corporation tax purposes.

The Finance Act 2003 makes option gains of employees deductible against corporation tax.

#### **Employee:**

Whilst the option remains unexercised, he/she is in a "no lose" situation. If the share price falls below the option price then there is no requirement to exercise the options. The employee can simply take the proceeds of his/her savings contract (plus the tax-free bonus at maturity).