

# Share Incentive Plans Revisited

Jennifer Rudman

Strategic Development Manager and Chartered Governance Professional

Employee Plans | EQ Boardroom





KEY FACTS

57%



OF ALL SIP  
PARTICIPANT  
ACCOUNTS



OUR CLIENTS  
RANGE FROM  
HAVING PLANS  
WITH

**30 - 300,000**  
ELIGIBLE EMPLOYEES

WE PROVIDE SHARE  
PLANS FOR

**40%**  
OF FTSE350  
COMPANIES

£2.9bn

OF ASSETS UNDER  
MANAGEMENT

WE OPERATE  
PLANS IN

120



COUNTRIES WORLDWIDE

£700m

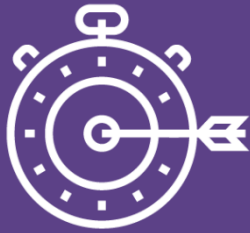
EMPLOYEE  
CONTRIBUTIONS  
RECEIVED PER  
ANNUM



**1.2m**

EMPLOYEE  
ACCOUNTS

## SHARE INCENTIVE PLANS IN NUMBERS



Introduced in  
**2000**



Companies  
awarding or  
purchasing shares  
2016-2017  
**512**



Income tax and NIC  
relief, 2003-2017  
**£4.4 billion**



SIP participants  
**1 million**



Average value per  
participant  
**£7,649**



Partnership Shares  
average investment  
per month  
**£88**



Companies offering  
Free Shares  
**25%**



Companies offering  
Dividend Shares  
**49%**

## PARTNERSHIP SHARES

---

### TAX AND NIC

#### Partnership Shares

- Deductions are taken from pre-tax salary
- The maximum amount employees can contribute to the plan is £1,800 per tax year (£150 per month) or 10% of their gross salary, whichever is the lowest
- Both employees and employers save on NIC

#### Tax and 'bad' leavers

- Up to 3 years - Income tax and NIC payable on market value of shares when withdrawn from the plan or if the employee leaves
- Between 3 and 5 years - Income tax and NIC payable on the lower of a) the market value of the shares on date of withdrawal or leaving and b) the market value of the shares when they were purchased or awarded
- After 5 years - No further income tax and NIC to pay

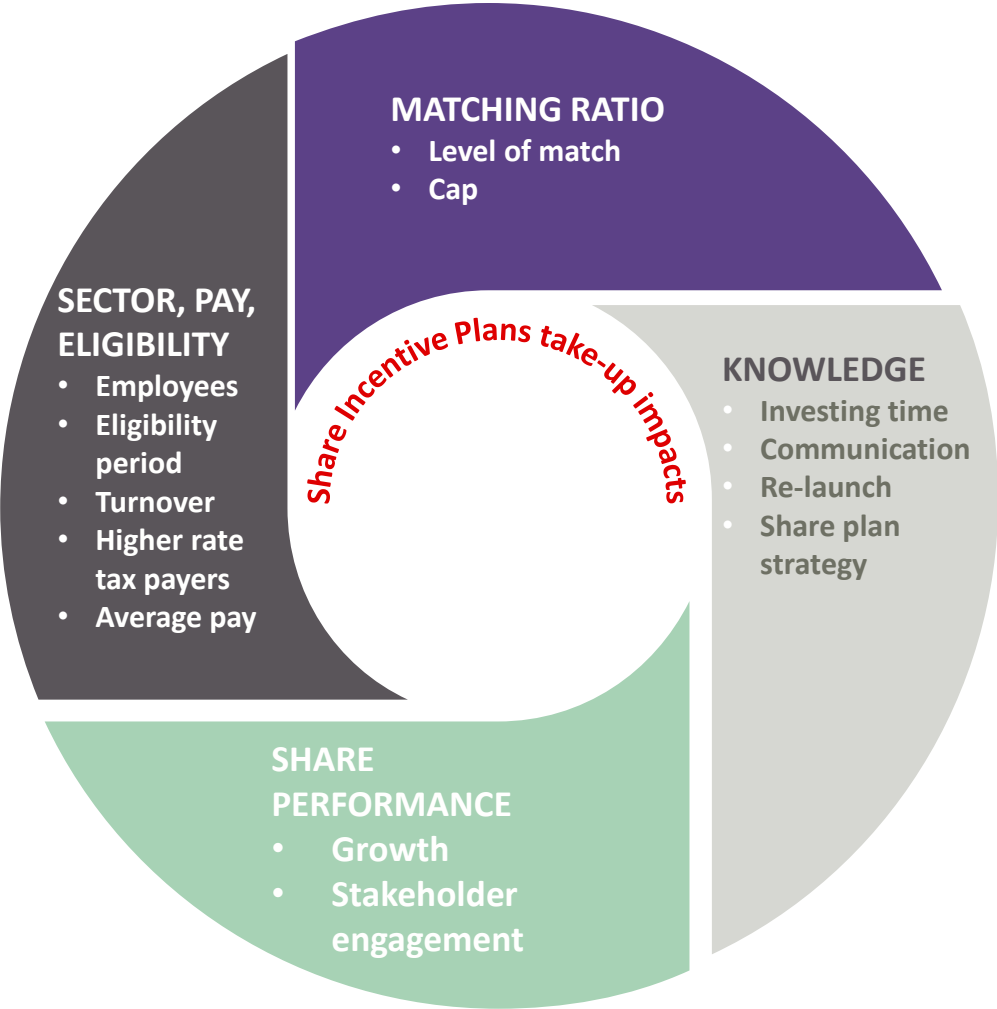
#### SIP ESTIMATED NIC RELIEF

---

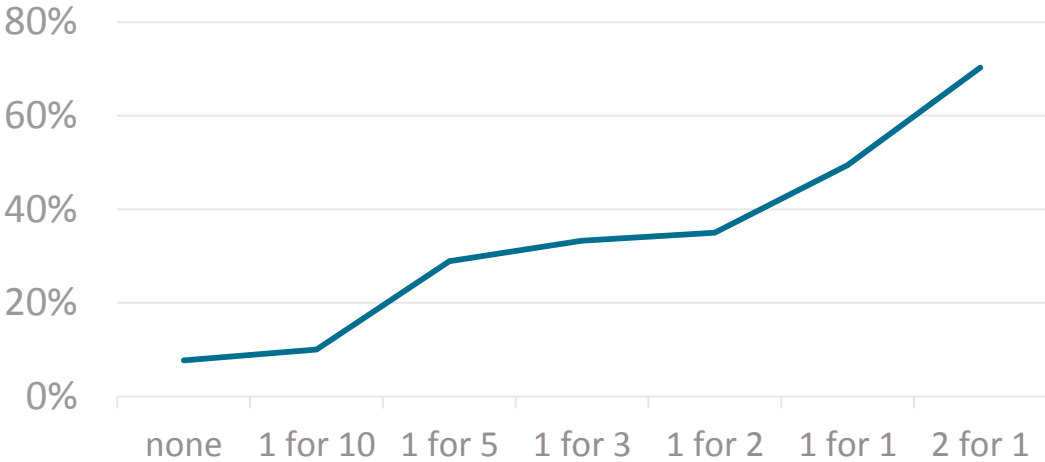
**£1.89**  
**BILLION**

**TAX YEARS 2003 - 2017**

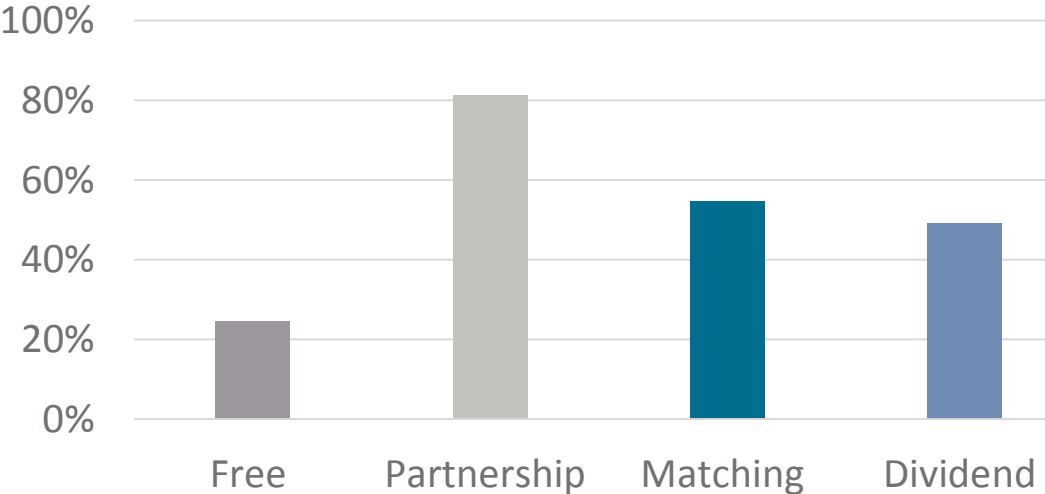
MODELLING – FACTORS TO CONSIDER WHEN ESTIMATING TAKE-UP



Matching ratio and take-up



Plans and elements offered  
530 plans/512 companies, 2016-2017 tax year



## CALCULATING EMPLOYER NIC SAVINGS

### EMPLOYER NIC 'CALCULATOR'



Key rows	Input	NIC calculation
Estimated participants	500	
Estimated average monthly contribution	£88	
Employers NIC rate	13.8%	
Gross annual saving		£72,864
Net annual saving*		£60,841

#### Estimate

- Take-up
- Share growth
- Leavers

#### \*NIC deferral (clawback), estimate

- 'Bad' leavers
- Average time in plan
- Share growth

## CALCULATING EMPLOYER NIC SAVINGS

### MODELLING



Key rows	Calculation 1	Calculation 2	Calculation 3
Estimated participants	300	700	1,000
Estimated average monthly contribution	£110	£75	£100
Net annual saving	£45,631	£72,595	£138,276

“

John Stier, Chief Financial Officer, Equiniti, *"Our SIP is a really great scheme to reach full goal alignment with our teams and shareholders. The tax breaks are superb making this one of our best ways as a business to align stakeholder interests in Equiniti. We have also saved substantial national insurance costs as a company that has meant a net benefit to the company's finances."*

## DIVIDEND SHARES

---

### DIVIDEND TAX ALLOWANCE

#### Reinvested dividends

- Reinvested dividend income will not count towards the annual £2,000 Dividend Allowance as long as Dividend Shares are held for three years or more, or taken out of the plan due to a 'good' leaver reason
- The true value of dividends being reinvested is the compound growth this achieves

#### Reinvested dividends – 'bad leavers'

- Reinvested dividend income received in the **three years** prior to leaving will count towards the participant's current tax year's Dividend Allowance in conjunction with any other dividend income received within that tax year

#### DIVIDEND ALLOWANCE

---

**£2,000**  
PER TAX YEAR



## DIVIDEND ANALYSIS



SIP DIVIDEND INCOME IN A 3-YEAR PERIOD - 6 APRIL 2015 TO 5 APRIL 2018

	Dividend income bands			
	£0.01 - £1,499.99	£1,500 - £1,999.99	£2,000 - £5,999.99	£6,000+
All SIPs included in survey - number of participants	591,323	5,974	13,091	3,239
SIPs with reinvestment - number of participants	386,205	5,561	12,207	2,990
SIPs with compulsory reinvestment - number of participants	25,261	449	1,100	166
SIP leavers - % estimate of 'bad leavers'		57%		

## FREE SHARE AWARDS

---

### PERFORMANCE RELATED

#### Reasons for awarding shares

- An award of Free Shares based on company **performance**
- **Discretionary bonus** can be allocated as shares
- Every eligible employee will be awarded **Incentive Shares**
- **Performance Shares** awarded to say thank you - everyone to have the opportunity to share in the company's success
- Free Share award each year so employees **build a stake** in the company
- The company takes its **performance** into account to determine Free Shares - encourage employees to **build up a shareholding** throughout their career
- An award of shares to reflect the company's strong **performance** and supports aim of all employees being **shareholders**
- Receive Free Shares based on company **performance** (profit achievement against budget)
- Flotation - Free shares to say **thank for** employees support on the journey so far

#### AVERAGE AWARD VALUE PER EMPLOYEE

---

**£860**

**TAX YEAR 2016 - 2017**

EQUINITI



Questions?

Thank you