

## **EMPLOYEE SHARE SCHEMES**

### **Terms of Reference for review of unapproved schemes**

The OTS consultations with business have found that employee share schemes are perceived to be a highly complex area of the tax code. This complexity is seen as a frequent cause of error in tax returns and as a source of administrative burdens on employers, their advisers and employees.

Reflecting this, the Government asked the OTS to carry out a two stage project. The first stage, which was reported on prior to Budget 2012, looked at the four tax-advantaged, or Government approved, share schemes and made recommendations to simplify them.

The second stage is to look at non tax-advantaged or unapproved share schemes and share-based incentives. The second stage will comprise two parts:

- a) An initial fact finding exercise to report by 31 July 2012, which will examine:
  - the most commonly used types of unapproved share scheme such as share option schemes, long-term incentive plans, deferred share purchase plans and share matching plans;
  - ad hoc arrangements falling within the employment related securities regime;
  - the drivers for companies to use such arrangements;
  - which parts of the tax system help or hinder their objective;
  - where the current tax rules create inappropriate complexity and disproportionate administrative burdens for users, including PAYE and NIC requirements; and
  - where users make common mistakes that lead to unexpected tax problems.
  
- b) A detailed examination of priority simplification areas identified in the fact finding stage, leading to specific simplification proposals in a final report by Budget 2013. The terms of reference for this part of the project will be settled after the conclusion of the first part and will be informed by consultation with the project's consultative committee, HMRC and HMT.

The final report will probably have regard to the following points, though these will be confirmed after the conclusion of the first part of the work:

- the impact on companies and their employees and on HMRC; including the impact on employers with international workforces;
- the Government's corporate tax reform agenda including the need for fairness;
- the wider economic and policy implications of any proposals – including the original purpose of the legislative provisions and overall tax receipts;
- the take-up of the schemes by companies and employees;
- the risk of non-compliance and avoidance opportunities, recognising especially that many of the tax rules are anti-avoidance in nature;
- the Spending Review resource constraints on HMRC and HM Treasury.

The Office's work will be informed by full consultation with interested parties including the employee share schemes consultative committee.