EXPLANATORY NOTE

CLAUSE 14, SCHEDULE 2: TAX ADVANTAGED EMPLOYEE SHARE SCHEMES

AMENDMENTS 17-19

SUMMARY

1. Schedule 2 gives effect to the recommendations of the Office of Tax Simplification (OTS) on the tax advantaged employee share schemes. The first amendment removes minor duplication in a provision concerning the use of restricted shares in share incentive plans (SIPs). Two further amendments are concerned with the limits companies may apply in relation to the allocation of dividend shares under SIPs.

DETAILS OF THE AMENDMENT

2. Part 4 of Schedule 2 amends the terms of Income Tax (Employment and Pensions) Act 2003 (ITEPA) to enable the use of certain restricted shares in tax advantaged employee share schemes.

3. Paragraphs 45 - 57 of Part 4 are concerned with SIPs. Paragraph 52 makes changes to the current SIP rules (in paragraph 84 of Schedule 2 ITEPA) relating to disqualifying events, to take account of cases where restricted shares are used.

4. As drafted, paragraph 52 created minor duplication in paragraph 84, between the newly inserted sub-paragraph (4)(za) and the existing sub-paragraph (4)(b). Shares that are "subject to any provision for forfeiture" (sub-paragraph (4)(b)) would have been included within the scope of the wider provision being inserted by new sub-paragraph (4)(za), in relation to shares that are "subject to a restriction".

5. Amendment 17 removes this duplication, and prevents any possible confusion.

6. Part 6 of Schedule 2 of the Bill removes the current £1,500 statutory limit on the total amount of cash dividends from SIP shares that can be reinvested into SIP dividend shares each year. Companies will, however, be allowed to apply their own limit for this purpose if they so wish.

7. As the Bill is drafted companies may limit dividend shares by reference to a percentage of the cash dividend amounts due to each employee.

8. Amendment 18 allows companies to set limits on dividend shares by reference to an "amount", determined in accordance with a specified method. This will allow companies to apply limits by reference to fixed sums, as well as specified percentages of cash dividends amounts earned by an employee.

9. Amendment 19 makes corresponding adjustments to the entry to force provisions.

BACKGROUND NOTE

10. Part 6 of Schedule 2 is concerned with the SIP code in Schedule 2 ITEPA. It implements the OTS recommendation to abolish the current statutory limit on the reinvestment of cash dividends arising on shares held under SIPs into further SIP 'dividend shares'.

11. Companies may, however, apply their own limit for this purpose. It is reasonable that they should be allowed this flexibility, for example to control the number of shares held by employees.

12. These government amendments are in response to representations that the current wording of the Bill concerning the way companies may apply this limit is unnecessarily restrictive.

Tuesday 23 April 2013

PUBLIC BILL COMMITTEE

Mr David Gauke

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* Schedule **2**, page **151**, line **16**, leave out sub-paragraph (3) and insert—

‘(3) In sub-paragraph (4)(b) for “provision for forfeiture” substitute “restriction”.’.

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* Schedule **2**, page **155**, line **28**, leave out sub-paragraphs (2) and (3) and insert—

‘(2) In sub-paragraph (1) for the first “all” substitute “some or all of the”.

(3) After sub-paragraph (1) insert—

“(1A) The company’s direction must set out—

(a) the amount of the cash dividends to be applied as mentioned in sub-paragraph (1), or

(b) how that amount is to be determined.”

(4) In sub-paragraph (4) after “may” insert “modify or”.’.

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* Schedule **2**, page **156**, line **5**, leave out sub-paragraph (2) and insert—

‘(2) Sub-paragraph (3) applies to a direction requiring the reinvestment of cash dividends which is given before that day.

(3) For the purposes of paragraph 62(1A) of Schedule 2 to ITEPA 2003 the direction is to be treated as requiring the reinvestment of all the cash dividends, subject to any modification of the direction which is made on or after that day under paragraph 62(4) of that Schedule.’.