HM Treasury

Non-Discretionary Tax Advantaged Share Schemes

Call for Evidence

May 2023

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Preface

Subject of the Call for Evidence: At Spring Budget 2023, the government announced that it would launch a call for evidence on the non-discretionary tax-advantaged employee share schemes, Save As You Earn (SAYE) and the Share Incentive Plan (SIP).

Scope of this Call for Evidence: The government's objectives for this Call for Evidence are to seek views and gather evidence on the current usage of these schemes and whether they are effective in achieving their stated policy objectives. The government will use responses to consider whether there are options for improving and simplifying the schemes. In particular, the government is seeking views on:

- the effectiveness and suitability of the schemes and whether they are fulfilling their policy objectives
- current usage and participation and whether there are barriers to participating in the schemes
- whether the schemes' rules are simple and clear as well as whether they offer enough flexibility to meet individual firms' needs
- whether the schemes suitably incentivise share ownership for lower income earners
- what other performance incentives businesses offer their employees and how these compare with SAYE and SIP

Who should read this: The government seeks views from businesses, business representative organisations, and employees as well as anyone interested in the tax-advantaged employee share schemes or the wider tax system.

Duration: The government would welcome responses by 25 August 2023.

How to respond or enquire about this call for evidence: We are currently unable to respond to responses or queries sent in the post at this time. You can submit your response by online survey here. If you encounter any problems, please contact: shareschemes@hmtreasury.gov.uk

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Foreword

At Spring Budget 2023, the government, in line with its priority to grow the economy, announced its intention to launch a Call for Evidence on the two non-discretionary share schemes, Save As You Earn (SAYE) and the Share Incentive Plan (SIP).

We want to spread prosperity and ownership across the country. Employee share schemes are a key policy for promoting employee ownership and creating a stronger link between production of capital and labour to help companies to grow. Tax-advantaged share schemes help align shareholder and employee interests. These schemes, and the generous tax treatment they offer, help to reward employees for their hard work and incentivise savings and investing habits amongst employees. I am keen to ensure the benefits of these schemes are felt widely by employees, and I welcome views on how the schemes might be improved or simplified, particularly to help those on lower incomes share in a company's success.

The government regularly reviews tax reliefs to ensure they provide value for money for the taxpayer, support wider ambitions for the economy, and help companies to drive commercial success.

This Call for Evidence invites views from businesses and business representative organisations, and anyone interested in the employee share schemes or the wider tax system on whether SAYE and SIP are fulfilling their policy objectives and whether there are opportunities to improve and simplify the schemes.

I thank you in advance for your engagement.

Victoria Atkins MP

Financial Secretary to the Treasury

Chapter 1
Introduction

1.1 The government understands the importance of enabling employees to share in their company's success, and for companies to reward and retain employees effectively. Engaged and motivated employees are central to a companies' growth prospects and ultimate success. To support this, the government currently offers four tax-advantaged employee share schemes that offer tax reliefs on qualifying shares.

1.2 The schemes give companies additional ways to incentivise and reward employees for their hard work, by helping them to offer committed employees a direct stake in the company, together with generous tax treatment. In promoting share ownership, the schemes help align employer and employee interests together in the growth of the company. This benefits firms through a more engaged and motivated workforce, whilst employees benefit directly from the success of the company and see their returns enhanced by tax-advantaged treatment.

1.3 Save As You Earn (SAYE) and the Share Incentive Plan (SIP) are the non-discretionary employee share schemes. They are designed for companies to offer tax-advantaged options or shares to all their employees.

1.4 Alongside this Call for Evidence, the government has published a final report detailing key findings from the recent evaluation of the SAYE, SIP and the Company Share Option Plan (CSOP). HMRC commissioned London Economics to conduct a quantitative, qualitative, and econometric analysis of CSOP, SAYE and SIP to provide a thorough and independent evaluation of the share schemes. This provides an initial basis from which to explore the effectiveness of SAYE and SIP.

1.5 This Call for Evidence seeks views on the SAYE and SIP schemes to assess their suitability and effectiveness, understand current usage, and consider what improvements could be made simplify the schemes and encourage greater participation, especially amongst lower income earners.

Chapter 2
How SAYE and SIP work

Tax-advantaged employee share schemes

2.1 The government currently offers four direct tax-advantaged employee share schemes. Enterprise Management Incentives (EMI), Company Share Option Plans (CSOP), Share Incentive Plans (SIP) and Save As You Earn (SAYE). EMI and CSOP are discretionary schemes while SIP and SAYE are non-discretionary, or all employee schemes.

2.2 The conditions for tax relief vary by scheme, however, each of them allows employees to benefit from reliefs on one or more of these taxes: Income Tax (IT), employee National Insurance Contributions (NICs), and Capital Gains Tax (CGT). In addition, an employer operating the schemes may qualify for employer NICs and Corporation Tax (CT) relief.

2.3 The government also supports indirect employee share ownership in the form of Employee Ownership Trusts (EOTs), where the company is owned by a trust on behalf of its employees. The government announced at Tax Admin and Maintenance Day that it would consult on the use and effectiveness of the EOT tax regime, to ensure that the reliefs are targeted more closely at incentivising EOTs as an employee ownership business model whilst preventing the reliefs from being used for tax planning in a way that doesn't deliver the policy objectives.

2.4 This Call for Evidence focuses on the non-discretionary, or all-employee, share schemes: SAYE and SIP.

How Save As You Earn works

2.5 SAYE allows a company to give eligible employees the right ('option') to acquire shares in the company at a price that is fixed when the option is granted. Employers can choose to offer a discount on the shares of up to 20% of the market value.

2.6 Participating employees may save up to £500 per month under a SAYE savings contract with a bank or building society. These contracts last for three or five years. The bonus or interest earned on these savings is tax-free.

2.7 At the end of the savings period, the total savings paid into the SAYE account can be used to acquire the shares if the employee chooses to exercise their options. Employees are not obliged to exercise their options and they may choose not to, for example if the current share price is less than the exercise price set when the option was granted. If the option is not exercised, the employee can withdraw their funds.

2.8 SAYE comes with generous tax advantages. The employee does not pay Income Tax or National Insurance contributions on:

- the grant of options,
- the bonus or interest received under the SAYE contract,
- the benefit from being able to acquire shares at a discounted price,
- any increase in the market value of underlying shares between the dates on which the option was granted and exercised.

2.9 CGT may be payable if shares acquired through a SAYE scheme are later sold or disposed. The employee will not be liable for CGT if they transfer the shares to a pension directly from the scheme when it ends, or an Individual Savings Account (ISA) within 90 days of the scheme ending (subject to ISA limits).

2.10 The employing company is usually eligible for Corporation Tax relief when SAYE options are exercised.

How Share Incentive Plans work

2.11 A SIP is an all-employee share scheme which allows eligible employees to be given and/or purchase shares in their employing company. The shares are held in a trust on behalf of participating employees and must usually be kept there for five years to secure the full tax advantages.

2.12 The scheme provides flexibility for companies to offer different share awards:

- Free shares: The employer can give employees free shares with a value of up to £3,600 each in any tax year.
- Partnership shares: Employees can purchase shares out of their salary before tax deductions. There’s a limit to how much employees can spend - either £1,800 or 10% of their income for the tax year, whichever is lower.
- Matching shares: The employer can also give employees up to 2 free matching shares for each partnership share they buy.
- Dividend shares: Employees may be able to purchase more shares with the dividends they get from free, partnership or matching shares.

2.13 SIP offers generous tax advantages. Employees do not pay Income Tax or National Insurance contributions on the value of the free or matching shares given to them provided they keep them in the plan for at least five years. There are partial tax advantages available at three years, at which point there is no Income Tax or National Insurance

Contributions charge on the growth in value. There are also provisions for 'good leavers' to still benefit from the tax advantages.

2.14 The value of the dividends can be reinvested in more plan shares. If these reinvested shares stay in the plan for three or more years, then there is no Income Tax charge.

2.15 No CGT is payable on any increase in value while the shares are in the plan. When the shares are sold, the cost for calculating CGT liability (if any) is the market value of the shares on exit from the plan and not the market value at acquisition.

SAYE and SIP usage

2.16 SAYE and SIP are popular schemes for companies and their employees. The government is keen to ensure that they remain attractive and reach those who will most benefit.

2.17 Take-up of SAYE and SIP has, not grown in recent years. However, take-up is not just driven by the parameters and rules, but also by wider economic and market conditions.

2.18 The share schemes evaluation published alongside this Call for Evidence suggested that while the schemes are generally well targeted, awareness is low. This in turn may affect uptake.

2.19 As Table 2.A demonstrates, the number of companies and employees participating in SAYE declined in recent years.

2.20 As Table 2.B demonstrates, the number of companies operating SIP has plateaued, and the initial value of shares being awarded or purchased by employees using SIP has declined.

Table 2.A Save As You Earn share options scheme data, 2015/16 to 2020/21

Year	Number of companies where employees granted options	Number of companies where employees exercised options	Number of employees that were granted options	Number of employees that exercised options
2015/16	290	320	510,000	200,000
2016/17	280	330	400,000	140,000
2017/18	300	330	340,000	120,000
2018/19	290	320	310,000	110,000
2019/20	260	290	310,000	110,000
2020/21	260	260	380,000	80,000

Source: HMRC Employee Share Schemes statistics 2020/21

Table 2.B Share Incentive Plans data, 2015/16 to 2020/21

Year	Number of plans that appropriated shares	Initial value of shares (£million)	Number of companies with SIP schemes
2015/16	550	1190	800
2016/17	530	950	780
2017/18	490	660	810
2018/19	480	660	840
2019/20	450	620	810
2020/21	480	780	820

Source: HMRC Employee Share Schemes statistics 2020/21

Chapter 3
Questions

Respondent's profile

3.1 When responding to this call for evidence, it is extremely helpful if you can include your experience of the SAYE and SIP schemes and your role in relation to them.

Box 3.A Respondent's profile: Questions

1. If you are a business owner or manager, what is your business activity, when was your company created, where is it based and how many employees do you have?
2. If you are responding on behalf of a representative body or think tank, please briefly describe the body, its objectives, and its members.
3. Does your company offer an employee share scheme? If so, which one?

Effectiveness and suitability of SAYE and SIP

3.2 Tax-advantaged share schemes aim to:

- Align employee and shareholder interests: with the ability to benefit directly from company growth and with generous tax treatment alongside, the employee is encouraged to take a proactive part in increasing the employer's value.
- Support recruitment and retention efforts: the schemes help businesses attract and retain high productivity workers. The tax advantages are an incentive to stay with the employer and help it grow so they benefit from the maximum reward available.
- Encourage financial planning: the schemes promote savings and investing habits amongst employees, enabling investment opportunities which may not have otherwise existed.

3.3 In particular, SAYE is designed to encourage a savings habit and enable all the employees of a participating company to purchase shares in their employer. For example, savings for the options are sourced directly from salary, so it is designed to be straightforward for the employee to partake. The scheme is also intended to support employers to motivate and reward employees through tax-advantaged share options.

3.4 SIP is designed to encourage employee share ownership and support employers' efforts to foster a more enterprising and productive relationship with their employees by granting them tax-advantaged shares in the business.

Box 3.B Effectiveness and suitability: Questions

4. To what extent do you agree/disagree that SAYE and SIP are fulfilling their policy objectives?

5. If you offer SAYE or SIP to your employees, why did you choose to do so? If you are responding as a representative body, please specify your members' main reasons for offering SAYE or SIP to their employees.

6. If you have chosen to offer only SIP or SAYE, what were the deciding factors of choosing one over the other? What do you see as the advantages of one over the other?

Company and employee participation

3.5 The number of companies and employees using SAYE has declined since 2015-16 and the number of employees being awarded or purchasing shares using SIP has also declined over the same period, (for SIP, employees are counted each time they participate in an award which can be multiple times in a year).

3.6 For example, between the tax years 2015-16 and 2020-21, the number of companies operating SAYE fell by over 7%. The number of employees granted options in the given tax year between those two periods has also fallen by over 25%. Since 2015-16, the initial value of shares awarded or purchased using SIP has fallen by 34%.

3.7 Decisions on participating in the schemes will depend on a wide number of variables, including the generosity and constraints of the schemes, the company's performance, wider market conditions, and wider remuneration packages.

Box 3.C Company and employee participation: Questions

7. The number of companies using SAYE and SIP has not increased in recent years. In your view, what barriers exist that may impact a company's decision to offer an employee share scheme? These could be barriers related to specific schemes or wider concerns.

8. The number of employees using SAYE or SIP has declined in recent years, what do you think has caused that decline? Do you have evidence to support this?

9. What proportion of employees participate in the share scheme(s) your company offers?

10. In your view, what are the reasons your employees give for choosing to participate in the scheme? If you are responding as a representative body, please specify what you think are the main reasons employees choose to participate in a share scheme.

11. What changes, if any, would increase participation amongst employees or change the way your company uses or offers the schemes?

12. In your view, is awareness of the benefits of SAYE and SIP low? How could the government and other groups raise awareness?

SAYE and SIP rules and flexibility

3.8 The range of tax-advantaged share schemes currently offered allow for companies to select the scheme which best suits their individual needs. The schemes also intend to provide flexibility for employers to offer shares and options on the basis which best suits their individual needs, including holding periods, performance conditions, leaver requirements, and flexibility around the value of awards to offer.

3.9 For example, the rules for SIP and SAYE schemes require that all employees must be invited to participate on the 'same' terms. However, plans can be altered based on remuneration, length of service or hours worked but they cannot contain features that are likely to have the effect of conferring benefits wholly or mainly on directors or higher-paid employees.

Box 3.D SAYE and SIP rules and flexibility: Questions

13. In your view, how easy or difficult is it to operate or administer SAYE and SIP? Please explain your answer and specify any ways in which the schemes could be simplified.

14. Do you feel SAYE and SIP offer enough flexibility to adapt to individual companies' circumstances? If not, please state why.

15. Does your company make use of the current flexibility within the scheme rules? Do they vary the terms on which the employees participate? If so, in what ways?

Lower income earners

3.10 The government wants to ensure the benefits of the schemes are being felt by all the employees within a participating company. In particular, the government is keen to understand whether the schemes are appropriately targeted to incentivise share ownership amongst those on lower incomes.

Box 3.E Lower income earners: Questions

16. Does participation in SAYE or SIP amongst employees vary according to remuneration? If so, in what ways?

17. In your view, does employee motivation or the reasons for participating in a share scheme vary according to different levels of remuneration? If so, in what ways?

18. If you are a company or a scheme user, does your company currently make use of the flexibility of the rules and vary the terms on which your employees participate according to remuneration?

19. In your view, are SAYE and SIP appropriately targeted towards lower- and middle-income earners?

20. In your view, what barriers exist that might prevent lower income earners from participating in an employee share scheme?

Other incentives

3.11 Employee share schemes are one of many benefits companies can offer employees to incentivise and reward staff. For example, companies may offer share options under one of the other tax-advantaged share schemes or offer other forms of remuneration such as bonuses.

3.12 The government would like to explore whether other forms of incentive provide similar benefits to SAYE and SIP and how the schemes compare to other incentives. When responding to the questions it would be helpful if you could provide quantitative evidence or case studies to support your views.

Box 3.F Other incentives: Questions

21. What other performance incentives does your company offer? How do these compare to SAYE and SIP?
22. In your view, how are SAYE and SIP valued by employees compared to other forms of remuneration or incentive?
23. Would your company have granted options or awards to employees outside of SAYE or SIP in the absence of those schemes?
24. Is there any other information you would like to share with us in relation to these schemes?

Processing of personal data

This section sets out how we will use your personal data and explains your relevant rights under the UK General Data Protection Regulation (UK GDPR).

Data subjects

The personal data we will collect relates to individuals responding to this call for evidence. Responses will come from a wide group of stakeholders with knowledge of a particular issue.

The personal data we collect

The personal data will be collected through email submissions and online survey responses and are likely to include respondents' names, email addresses, their job titles, and employers as well as their opinions.

How we will use the personal data

This personal data will only be processed for the purpose of obtaining opinions about government policies, proposals, or an issue of public interest.

Processing of this personal data is necessary to help us understand who has responded to the call for evidence and, in some cases, contact respondents to discuss their response.

HM Treasury will not include any personal data when publishing its response to this call for evidence.

Lawful basis for processing the personal data

The lawful basis we are relying on to process the personal data is Article 6(1)(e) of the UK GDPR; processing is necessary for the performance of a task we are carrying out in the public interest. This task is seeking evidence for the development of departmental policies or proposals and obtaining evidence to help us to develop effective policies.

Who will have access to the personal data

The personal data will only be made available to those with a legitimate need to see it as part of the call for evidence process.

Personal data received as part of the call for evidence process will be shared with HMRC, in order for them to also understand who responded to it. This is because, as a policy partner, HMRC has collaborated in this call for evidence and will be involved in policy discussions following responses we receive.

As the personal data is stored on our IT infrastructure, it will be accessible to our IT service providers. They will only process this data for our purposes and in fulfilment with the contractual obligations they have with us.

How long we hold the personal data for

We will retain the personal data until our work on the call for evidence process is complete and it is no longer needed.

Your data protection rights

You have the right to:

- request information about how we process your personal data and request a copy of it
- object to the processing of your personal data
- request that any inaccuracies in your personal data are rectified without delay
- request that your personal data are erased if there is no longer a justification for them to be processed
- complain to the Information Commissioner's Office if you are unhappy with the way in which we have processed your personal data

How to submit a data subject access request (DSAR)

To request access to your personal data that HM Treasury holds, contact:

The Information Rights Unit
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

dsar@hmtreasury.gov.uk

Complaints

If you have concerns about our use of your personal data, please contact the Treasury's Data Protection Officer (DPO) in the first instance at privacy@hmtreasury.gov.uk

If we are unable to address your concerns to your satisfaction, you can make a complaint to the Information Commissioner at casework@ico.org.uk or via this website: https://ico.org.uk/make-a-complaint.

HM Treasury contacts

This document can be downloaded from www.gov.uk

If you require this information in an alternative format or have general enquiries about HM Treasury and its work, contact:

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