Save As You Earn (SAYE)

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What is Save As You Earn (SAYE)?

An SAYE plan, otherwise known as a Sharesave or a savings-related share option plan is an HMRC approved all-employee plan that links a grant of share options to a three or five year savings contract. When the savings contract comes to an end, the employee can use the funds to acquire shares in their company at a pre-determined price set at the beginning of the savings contract, or take back their savings.

Key features of an SAYE Plan:

- HMRC approved so tax advantages apply.
- Plan rules must provide that every employee of the company must be invited to participate on the same terms.
- A qualifying period of up to five years employment can be included.
- An option price to purchase shares is set at the beginning and can be discounted up to 20% below market value.
- The savings contract may include a tax-free bonus (depending on what HMRC set each year).
- In most circumstances no income tax is charged on the profit made when the option is exercised.
- The shares must form part of the ordinary share capital and be fully paid up.
- The employee has the choice to take his/her savings out as cash, including any tax-free bonus if the market price for shares is below the option price.
- Companies often operate an SAYE plan internationally (subject to local tax and legal restrictions).
- Savings are held independently from the company with either a bank or building society.
- Employees choose to save for either 3 or 5 years.
- Employees can choose to save between £5 and the monthly maximum (companies can choose any amount up to £500).
- Employees may defer up to six monthly payments without the associated option lapsing, but their maturity will be delayed accordingly.
- Employees can cancel their contract and withdraw their savings from the plan at any time, but their option to acquire shares would lapse.
- In certain circumstances an option can be exercised earlier.

Employees can choose to save between £5 and the monthly maximum (companies can choose any amount up to £500).

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Tax implications

For employees:

- No income tax or NICs is charged on the grant of an option.
- Deductions are taken from net salary.
- Any bonus or interest received under the savings contract is tax-free.
- No income tax or NICs is charged on the exercise of an option after three years (or if it is exercised earlier due to a specified 'good leaver' reason.
- When the employee sells the shares any gain is subject to capital gains tax (CGT), where the base cost of the shares is the option exercise price, but sales can be planned to benefit from the annual CGT allowance.
- Shares acquired through an SAYE plan may be transferred into an ISA within 90 days of exercise, avoiding a CGT charge when the shares are subsequently sold.

For employers:

- The costs associated with setting up an SAYE plan are allowable deductions.
- No employer NICs are payable on grant or exercise of the option.
- Corporation tax (CT) relief is usually available on gains made by employees when options are exercised.

Exercise process

SAYE options are exercisable during a six-month period following the maturity date (i.e. the end of the three or five year contract).

If an employee leaves employment due to injury, disability, redundancy, retirement, on the employing company or business leaving the group, then that employee is deemed to be a 'good leaver' and is permitted to exercise his/her options with tax relief, within six months of the leaving date, but only using the amount saved up to the exercise date.

Example:

An employee chooses to save £50 per month for a three-year period, giving a savings amount of £1,800 (£50 x 36 months). A tax-free bonus of £30 is added, based on a bonus of 0.6 x monthly contribution (0.6 x £50). This gives the employee total savings of £1,830.

The company offers the maximum 20% discount available, so with a market price per share of £5 at the date of grant, the fixed option price is set to £4.

The total number of shares that could be acquired at the end of the plan is therefore 457 shares (£1,830 ÷ £4, rounded down to the nearest whole share).

The employee is granted an option to buy 457 shares at £4 per share. This option can be exercised within a six-month period starting three years after the start of the savings contract.

At maturity the share price has grown to £5.50, so the employee chooses to exercise their option to acquire the shares which are now worth £2,513.50 (£5.50 x 457 shares), but will only need to pay £1,828 for these shares, making a gain of £685.50 (£2,513.50 - £1,828).

This gain is not subject to income tax or NICs, but will be subject to CGT if the employee has capital gains for that year in excess of the personal allowance amount.

Share Plan Partners can advise and help you with establishing an SAYE plan, which will require the design of plan rules, HMRC registration/declaration and choosing a savings provider. Please contact us for more information.

INCENTIVES THROUGH EQUITY

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