INCENTIVES THROUGH EQUITY

SHARE PLAN PARTNERS

Deferred Share Bonus Plan

Created May 2015

What is a Deferred Share Bonus Plan?

Deferred share bonus plans allow companies to remunerate key employees on a discretionary basis, beyond traditional cash-based rewards, ensuring focus is given to the long-term performance of the company rather than just short-term goals. It provides senior decision makers with a share bonus scheme that phases rewards, typically over a three-year period. With the emphasis firmly moving away from short-term cash-based reward arrangements towards longer-term share-based plans. Deferred share bonus plans continue to prove popular, especially for companies with institutional shareholders.

Deferred share bonus plans come in various guises, but often involve an award of nil cost shares as part of an employee's annual bonus, with a deferred/holding period (often one or two years), followed by a vesting/release of these shares at the end. The plan typically also deferrals a further percentage of the bonus, which can be accompanied with an award of matching shares, given free by the company, which are conditional upon specific performance targets, with a deferral period of typically three or four years.

Performance conditions are usually specific to the company, but popular measures used are total shareholder return (TSR) and earnings per share (EPS). At the end of each performance period, the company will determine the extent to which the performance targets have been satisfied, determining the extent to which the share award will vest.

Dividends can be paid on the shares in the form of either cash or additional shares from the date of award through to the vesting date.

Clawback provisions are now commonly adopted within the plan rules, allowing companies to revoke awards during the deferral period or once an award has vested if they find the performance of the business has been overstated at the time of vesting, or it is discovered that the employee was, at the time the payment was made, in serious breach of his employment contract.

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Tax treatment

Awards are usually based on the gross (pre-tax) value of the bonus and no tax liability arises on the award.

Income tax and NICs are payable upon release of the shares and the employer pays the associated employer NICs.

Example

The company awards a bonus of £150,000, £50,000 of which is paid immediately in cash, £50,000 is deferred for one year in the form of shares, which will be released to the employee providing they remain in employment, whilst the remaining £50,000 is deferred for three years with vesting conditional upon set performance conditions. The company then matches this final amount by awarding the employee a further £50,000 worth of shares to vest as part of the three-year deferral.

For expert assistance with establishing a deferred share bonus plan please contact us to discuss your specific requirements. We offer a FREE Consultation to disscuss the options available to you.

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