Long Term Incentive Plan (LTIP)

Created May 2015

What is a Long Term Incentive Plan (LTIP)?

An LTIP is a discretionary plan that is usually used to attract, motivate and retain key senior executives and the board, and generally are awarded based on a percentage of salary.

An LTIP is a conditional award based on the satisfaction of set performance conditions, typically measured over a period of three or four years. The shares vest on a sliding scale to the extent that performance conditions have been met. The most common performance indicators used in LTIP awards is Total Shareholder Return (TSR) and Earnings Per Share (EPS), which help align rewards to shareholder value. Companies will often include industry and company specific measures to these as well.

An LTIP typically involves an award of nil cost share awards, but can be combined with approved share options for tax efficiency, or be set up as unapproved nil cost options to allow for more flexibility (a window of up to ten years from grant is permitted to exercise the options).

During the deferral period, participants have an interest in the shares but are not legal owners so are not entitled to dividends or voting rights. However, the plan rules may provide for shares to be added, equivalent to dividends paid to shareholders.

The shares to be provided to participants will usually be held in trust and released by the trustees to the participants upon vesting.

LTIPs are most popular with listed companies, but there is nothing to prevent an unlisted company from setting up an LTIP.

Whilst there are no real tax efficiencies for employees, LTIPs are awarded at nil cost, allowing participants to receive some value no matter what the prevailing share price.

LTIPs are most popular with listed companies, but there is nothing to prevent an unlisted company from setting up an LTIP.

Share Plan Partners Limited. Registered in England No. 08791239. VAT Reg No. 798 1639 61.
T: +44 (0)7838 491 550 | E: ian.muphie@shareplanpartners.com | www.shareplanpartners.com

Tax implications

The shares are subject to income tax and NICs based on their value on the vesting date and the employer has to pay the associated employer NICs.

If combined with an approved share option element (up to £30,000), then there is no charge to income tax or NICs on the option gain, but any growth in value over the exercise price is subject to capital gains tax (CGT) when the shares are sold.

Share Plan Partners can advise and help you with establishing an LTIP, which will require the design of plan rules, setting up of a trust and shareholder approval. Please contact us for more information.

T: +44 (0)7838 491 550
E: ian.muphie@shareplanpartners.com

Share Plan Partners Limited. Registered in England No. 08791239. VAT Reg No. 798 1639 61.
T: +44 (0)7838 491 550 | E: ian.muphie@shareplanpartners.com | www.shareplanpartners.com