Save as you earn options

Under a save as you earn (SAYE) share option plan, employees may pay, via payroll, into a bank or building society on a monthly basis with the choice to use those savings to buy shares through an option scheme or withdraw the savings for other uses.

Key points

- Employees and directors must normally be employed at the time of grant and exercise and, although international plans are common, must be tax resident in the UK to gain UK tax relief.
- An SAYE option enables employees/directors to buy shares in three- or five-years' time at the market value price per share at grant, or discounted by up to 20 per cent.
- All employees must be offered the chance to participate, although there can be an employment qualifying period of up to five years.
- The option holder must enter into a special savings contract for a fixed three- or five-year term.
- Payments into the savings contract can be on a weekly or monthly basis and must be deducted from salary or wages after income tax/national insurance (NICs). The total monthly payments must be between £5 and £500. Some payment holidays are allowed to cover special situations.
- There is income tax/NIC liability for qualifying options exercised within six months of the end of the savings period or cessation of an option holder's employment for injury, disability, retirement, redundancy or because of a take-over, or certain other corporate events.
- When shares are sold or transferred normal capital gains tax rules apply.
- Shares acquired under an SAYE scheme can be transferred into an ISA or a stakeholder pension on a tax-free basis within 90 days of exercising the option.
- The shares used must form part of the ordinary share capital of the employer and satisfy various conditions. Only certain kinds of restrictions are allowed.
- If the option exercise does not qualify for tax relief, then income tax is payable on the amount of any gain made, through the personal tax return procedure. No NICs are due. The amount of the gain would be:
  - what the shares are worth when bought; less,
  - the price paid for the shares; less,
  - the amount (if any) paid for the option itself when it was received.

Tax treatment summary

There is no income tax or national insurance contributions (NICs) when an option is granted.

- There is normally no income tax or NICs when the savings are used to buy the shares if purchased more than three years from award and there are no special circumstances (eg death, disability, redundancy).
- If the option is exchanged for cash or something else of value, income tax and NICs is normally payable under PAYE on the value received.
- Sales or transfers of the shares can create a capital gain, often covered at least in part by the annual exemption.
- The employer’s costs on setting up a qualifying SAYE scheme are typically allowable as a corporation tax deduction.
- When options are exercised, the employer can obtain a statutory corporation tax deduction generally equal to the employee’s gain (even if the employee doesn’t pay income tax).
- Any bonus or interest received on savings under the SAYE contract is tax-free.
- If an option is given up and, in return, money or something else of value is received, PAYE and NICs must normally be accounted for. The taxable amount is:
  - the amount or value of what is received for giving up the option; less,
  - the amount (if any) paid for the option itself when received.
- On disposal of shares acquired through the exercise of an SAYE option, a liability to capital gains tax (CGT) may arise. The base cost for CGT purposes is normally the price paid for the shares. If any income tax liability arose on exercise, the base cost includes the amount subjected to income tax. In practice, capital gains are often within the employee’s annual exemption.

Transfer to pension plan

As a further incentive, any shares acquired under an SAYE option which are transferred into a registered pension scheme may qualify as an employee contribution to the scheme and thus attract tax relief in the year of transfer.

Administration

The employer must make arrangements for the administration of the plan. The savings provider will usually support the administration of the SAYE plan which helps outsource this obligation.

The employer must register and self-certify the plan with HMRC and make annual returns.

Accounting treatment

The ‘fair value’ (as defined especially for this purpose) of options granted must be shown as an expense in the employer’s income statement. The accounting deductions are not the same as the amount of the statutory corporation tax deduction referred to above.

International considerations

The SAYE plan can be expanded to accommodate international participants, but those participants may not be able to benefit from the UK tax advantages.

Pay careful attention

The tax legislation, rates and reliefs referred to herein are applicable at May 2023. Tax rules change frequently and the value of any relief from taxation depends on the circumstances of the taxpayer.

Contact

For further information on share schemes, please contact Fiona Bell, Simon Adams, Martin Cooper or your usual RSM adviser.