**Time to take action**
Major changes to employee share plan compliance

New legislation has introduced major changes to employer compliance requirements in the UK for employee share plans

**In summary:**

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<th>Online registration</th>
<th>All share plans must be registered online by <strong>6 July 2015</strong>.</th>
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<td>Annual returns</td>
<td>Online filing of new more detailed annual returns is mandatory for forms due by <strong>6 July 2015</strong> and for subsequent tax years.</td>
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<tr>
<td>Self-certification</td>
<td>You must self-certify online all CSOP, SAYE and SIP plans by <strong>6 July 2015</strong>.</td>
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<td>Internationally mobile employees</td>
<td>The taxation of some share awards held by internationally mobile employees will change from <strong>6 April 2015</strong>.</td>
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<td>Corporate tax relief</td>
<td>Statutory corporate tax relief for share plans is expanding from <strong>6 April 2015</strong> to incorporate relief for some assignees to the UK.</td>
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<td>Other changes</td>
<td>These include increased tax free limits for SAYE and SIP plans, improved relief on transactions and more time to recover PAYE due from employees on share awards. These changes are effective from <strong>6 April 2014</strong>.</td>
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You need to take action now to register your plans online and identify what other changes could impact you or your employees. If you don’t address these changes you could face additional tax charges, lost tax relief and/or penalties.

More detail on these changes and what you should do now is provided in this briefing.

**More detail on the changes**

**Online registration**
You need to provide certain key information to HM Revenue & Customs (HMRC) on all new and existing share plans through an online registration process.

Both tax advantaged and non-tax advantaged share plans must be registered online by **6 July 2015**.

The UK tax advantaged share plans that must be registered are Company Share Option Plan (CSOP), Save As You Earn (SAYE), Share Incentive Plan (SIP) and Enterprise Management Incentives (EMI).
**Online filing**

**What you need to do**

Annual returns for all share plans must be filed online for the tax year 2014/15 and for subsequent years. HMRC’s online system won’t allow you to submit your returns unless you have registered your share plans first. The filing deadline for your annual returns hasn’t changed. It’s still 6 July following the end of the relevant tax year (6 April to 5 April).

**Format of annual returns**

New online filing templates replace the previous paper returns (such as Forms 34, 35, 39, 42, EMI 1 and EMI 40). The new templates will require significantly more information than the paper forms so you’ll need to make sure you can capture all of the information that’s needed. You can use the draft online templates (available on HMRC’s website) to help you assess if your current systems can capture the appropriate information, or if you’ll need to make modifications.

A separate annual return will be required for each share plan you register.

**Late or incomplete submissions**

Automatic penalties will apply if annual returns are filed late and in certain other circumstances.

**Submitting returns online**

Online registration and filing will need to be done through the new Employment Related Securities (ERS) service within HMRC’s online services. If you’re not already using these online services, HMRC recommends consulting the following: [http://www.hmrc.gov.uk/online/new.htm](http://www.hmrc.gov.uk/online/new.htm)

Filing online means HMRC has access to more information than before in electronic form. This makes it easier to review the annual returns for errors and investigate potential risk areas.

**Additional requirements for EMI plans**

Additional reporting requirements apply for EMI plans. EMI plans are only available to smaller companies with total gross assets of no more than £30m that also meet certain other conditions.

EMI option grants must also be notified online within 92 days of the grant date but it’s still necessary for an employee to sign a working time declaration. Any unexercised EMI options will also need to be notified online as part of the annual return.

**Self-certification of CSOP, SAYE and SIP**

**What’s changed?**

On 6 April 2014, the HMRC approval process for CSOP, SAYE and SIP plans was replaced with a self-certification system. This means:

- New plans will need to be self-certified online by 6 July following the tax year in which the first award was made, and
- Any plans approved by HMRC before 6 April 2014 under the old system will need to be self-certified by 6 July 2015.

This transfers the risk to you as the employer to make sure your plans and any changes you make to them meet the requirements of the legislation.

**What happens if you don’t self-certify?**

The consequences of failure to self-certify depend on the specific circumstances:

<table>
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<th>Plan Type</th>
<th>Consequence</th>
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<tbody>
<tr>
<td>New plans</td>
<td>If you don’t register and self-certify new plans by the deadline, neither the company nor the employees will benefit from the tax advantages.</td>
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<tr>
<td>Existing approved plans</td>
<td>If you don’t register and self-certify existing approved plans by 6 July 2015, the tax advantages for the following awards will be lost:</td>
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<td></td>
<td>• All outstanding CSOP share options (irrespective of the grant date), and</td>
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<tr>
<td></td>
<td>• All awards made from 6 April 2014 under an SAYE or a SIP.</td>
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<tr>
<td>Non-compliant plans</td>
<td>If you self-certify a plan that isn’t compliant, any tax relief claimed incorrectly will have to be paid back by the company and you risk incurring additional penalties that could be significant.</td>
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</table>

For any of these failures, you could incur unexpected tax and National Insurance Contribution (NIC) liabilities.
## Internationally mobile employees

### Tax changes for share awards

The UK tax treatment of some share awards held by internationally mobile employees will change from 6 April 2015. These changes will remove the following two anomalies:

- The first relates to share options and restricted shares that are granted before an employee becomes resident in the UK which don’t generally give rise to a UK income tax or NIC liability. This is true even if the individual exercises the options or the restricted shares vest after UK residence commences (assuming these grants are not related in any way to UK duties).
- Secondly, if an employee is UK resident on the grant of a share option and during the vesting period moves to a country that doesn’t have a relevant Double Tax Agreement with the UK, and is resident in that country on exercise, the full gain on exercise is subject to UK income tax rather than it being apportioned.

From 6 April 2015, these anomalies will be removed and all share awards will be taxed on a similar basis, making it more consistent with how other countries tax these awards. In summary:

- All share awards will be subject to UK income tax (generally through PAYE) if any amounts relate to time spent in the UK, so it won’t matter if the grants were made before an employee came to the UK.
- Generally the UK taxable portion of any gain will be based on time resident or working in the UK during the vesting period of the share award (although there are some limited exceptions, particularly for moves between the UK and US). The legislation also allows for a ‘just and reasonable’ override.

Also, if you currently source income from share awards in any other way (for example, you source income from restricted share units based on the tax year of vesting) you’ll need to consider changing this.

The Government intends to change the NIC rules to align them with the changes to income tax (broadly, an apportionment approach). The NIC rules have not yet been finalised but any changes will take effect from 6 April 2015.

### Corporate tax relief for inbound assignees

Currently, where a UK company hosts employees seconded into the UK, the UK company can’t claim a statutory corporate tax deduction for the share income that relates to UK duties.

From 6 April 2015 this will change and a deduction will be available to the UK host company in these circumstances (assuming the other conditions for relief are met).

## Other changes

The legislation has introduced other changes from 6 April 2014, including:

### Increased tax advantaged limits for SAYE and SIP awards

The monthly savings limit for SAYE plans has doubled from £250 to £500. For SIP, the maximum annual limit for Free Shares has increased to £3,600 (from £3,000) and for Partnership Shares has increased to £1,800 (from £1,500).

### Amendments to CSOP and SAYE provisions on takeover

New provisions permit tax efficient exercise of awards prior to or after certain specific takeover situations.

### Tax free rollover of restricted shares

We are pleased to say that an anomaly has been removed and restricted shares can now be rolled over in a transaction situation (such as a share for share exchange) on a tax free basis. This aligns the treatment with that for share options.

### Reimbursement of PAYE by employee to employer

The time frame for an employer to recover the tax due on events such as share vests or option exercises from an employee has been extended to 90 days following the end of the tax year. Previously this was required within 90 days of the vest or exercise. If the PAYE is not reimbursed within these timescales an additional tax charge arises for the employee.
What you should do now

Register your employee share plans online
You’ll need to give some thought to how you register your employee share plans – we know from working with employers that many are already struggling with the new process.

Prepare for new annual returns
Review the current draft templates to make sure you can collect the relevant data and consult with others if necessary (e.g. your plan administrators).

Self-certify your CSOP, SAYE and SIP plans
Review your plan rules and how you operate these plans to confirm compliance with the tax legislation so you can self-certify your plans.

Get ready for the tax changes for internationally mobile employees
Identify employees who may be impacted by the changes, decide how you’ll communicate the changes to them and how much support you’ll offer. Change your current tracking processes to make sure any additional taxable share awards are captured in the UK payroll systems.

Claim corporate tax relief for inbound assignees
Consider all relevant share awards where the new relief can be claimed to maximise the benefit to you and decide how best to manage your internal record-keeping to track these.

Consider other changes
Decide whether you want to increase the benefits you provide to your employees under tax advantaged plans. Take the opportunity to review your employee share plan rules and operating procedures and make any necessary or preferred changes to reflect the new legislation.

How we can help
We can help you understand all of the recent changes around share plan compliance and taxation, put together a plan incorporating the appropriate actions for you and help you make sure you get the maximum value from your employee share plans.

Let’s talk
We’re proactively working with HMRC to understand and suggest improvements to the online services for employee share plans. If you’d like to discuss any of the above, please contact your usual PwC adviser or any of our people below:

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With employee share awards under increased focus and scrutiny from HMRC, now is the time to review your employee share plans and compliance processes to ensure you’re ready for these changes.

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