

Amendment	Page	Line
*SC 166	246	28

Mr Paul Boateng

(Brent South – Lab)

### **Amendment 166**

Schedule 21, page 246, line 28, leave out from beginning to end of line 17 on page 247.

### **EXPLANATORY NOTE**

1. Amendment 2 withdraws the proposal to alter the tax free holding period for dividend shares in the Share Incentive Plan.

### **BACKGROUND NOTE**

2. SIP was introduced in Finance Act 2000. The plan was designed following extensive consultation and is intended to meet the needs of all companies. It offers companies flexible ways of achieving employee share ownership with tax advantages for employees and the companies that employ them. SIP has been widely welcomed. To date over 750 companies have applied for Inland Revenue approval of their plans and over 500 have been implemented or are ready to be implemented.
3. A number of other changes are being made in this Finance Bill which respond to requests from industry and seek to ease administration of SIP schemes and increase flexibility. Changes being made are:
  - to make the purchase of partnership shares more flexible,
  - give employers flexibility in how they determine salary for the purchase of partnership shares
  - to allow employees to participate in two SIPs (but not at the same time) within the same year following a move between connected companies.
4. All of these proposed changes to SIP have been welcomed.

5. Employees can reinvest dividends from SIP shares into more shares, called dividend shares – up to £1500 a year. They must hold such shares for 3 years to qualify for tax reliefs. This holding period is shorter than the normal 5 years for partnership shares, recognising that a second 5-year period for dividend shares on top of the 5-year period on base shares would be an inflexible long-term commitment.
6. The industry made representations and said the operation of these different holding periods makes administration difficult. The main concern centred around the potential delay in winding up a Plan with a dividend re-investment component.
7. In response the dividend share proposal in Schedule 21 was developed. This aligns the “tax free” holding period for dividend shares with the holding period for the base shares held in the SIP and ensures that dividend shares, will no longer have to be held in the plan after the base shares, to retain their tax advantages. This achieves the simplification the industry asked for.
8. Feedback since publication of the Finance Bill indicates that the concern around the potential delay in winding up a Plan with a dividend re-investment component, is not as widespread as first thought and that administrators have found way to accommodate the administration of dividend shares.
9. It also now appears those asking for the change did not fully appreciate the IT requirements associated with implementing the change.
10. The industry have indicated that, rather than proceed with the change, it would be preferable to keep the current three year “tax free” holding period. This avoids the complex and costly IT developments that would be needed to implement the change and some difficult communication issues.