

A Sharing Employer

Retaining and motivating key employees is a challenge as skilled individuals are in high demand. Employers view share schemes as an effective method of reward as no immediate cash is required. The award can be dependent on various targets and can be used as a retention tool where participation is linked to service. Some schemes can be completely tax free, so it's easy to understand their popularity.

Oil company share values, for example, have generally performed well and many senior employees have accumulated significant share wealth. Understanding the different types of schemes from a tax perspective can be challenging particularly where Capital Gains Tax (CGT) is concerned and, too often, CGT is not an area where employers will offer guidance.

Capital Gains can be taxing

Many employees incorrectly believe that if they may have suffered Income Tax and National Insurance on the acquisition of shares, any future sale of shares is tax free. Unfortunately this is not the case and it is vital that the CGT position is considered prior to the disposal of any shares.

There are strict rules to identify the CGT base cost of shares, and where shares have been acquired, over a number of years, via many different schemes this calculation can be complex.

Sharing the wealth

Share awards received over a long period of time can create significant asset wealth with individuals investing in properties, share portfolios, etc. In addition, many individuals look to make significant gifts to family, fund school fees, or help children acquire their first homes. All this can make tax affairs more complex generally.

Don't pay more tax than you need to

Another consideration is Inheritance Tax (IHT). No one wants 40% of their estate on death disappearing to pay IHT, when this should be benefiting their nearest and dearest. It's not unusual for HMRC to end up with more in IHT than is left for the beneficiaries.

There is no doubt that managing the tax implications surrounding share awards can be challenging but seeking professional advice in good time can result in significant tax savings.

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