

Roll out the barrel, we'll have a barrel of shares...!

By Lynn Gracie, tax manager at Anderson Anderson & Brown LLP, Chartered Accountants

Retaining and motivating key employees within the oil industry is a challenge as skilled individuals are in high demand. With a top tax rate of 50% and the recent additional 1% on National Insurance, many companies are reviewing their executive remuneration arrangements with a view to increasing the tax efficiency of rewards.

Employers view share schemes as an effective method of reward. No immediate cash is required. The award can be dependent on individual and/or company 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.

Increasing share values

Oil company share values, driven by soaring oil prices have, in the most part, performed well compared to the rest of the stock market over recent years. As a result, many senior employees have accumulated significant share wealth, often spread over a number of different employer schemes. Understanding these 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.



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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. There are rules for same day sales, for acquisitions within 30 days of a sale and for share pool sales, all of which must be considered in calculating the correct CGT position. It's possible that shares have been acquired, perhaps over a number of years, via Approved Options, Unapproved Options, Long Term Incentive Plans, Save As You Earn Schemes, Share Incentive Plans and Restricted Share Schemes, to name but a few. The deemed dates of acquisition for CGT

purposes can vary significantly, as can the CGT base cost of the shares, both of which can impact on the CGT payable on the shares which have been sold.

Sharing the wealth

Share awards received over a number of years can create significant asset wealth. Individuals may invest in other shares, second homes, buy to let properties, investment portfolios and so on. The increased disposable income may be invested into pension schemes, perhaps exceeding HMRC allowable limits. In addition, many individuals look to make significant gifts of this income to family, perhaps funding school fees, or helping children acquire their first homes. All this can make tax affairs more complex generally.

Have you planned the tax you leave behind?

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.

Don't pay more tax than you need to

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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Sharing the Problem

- Do you want to sell shares but are worried about the tax implications ?
- Looking to gift shares to family members ?
- Unsure about reporting share acquisitions or sales to HMRC ?
- Would you like to ensure your family get more than HMRC ?

SHARE YOUR CONCERNS AND LET US HELP MINIMISE YOUR TAX

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