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Global Employer Services

Save As You Earn (SAYE)

SAYE schemes have proved to be both a tax effective method of saving and an attractive mechanism to allow employees to participate in the success of the company.

Why implement an SAYE scheme?

SAYE schemes have proved to be both a tax effective method of saving and an attractive mechanism to allow employees to participate in the success of the company.
In general, the purposes of an SAYE scheme are as follows:

- To assist employees to acquire shares in a company at a discount, without having to borrow or to pay any income tax on the discount
- To exempt the recipient employee from income tax on the grant and exercise of the options
- To allow companies a tax deduction for the costs of running the scheme.

Advantages of an SAYE

- Shares can be acquired by employees at a discount of up to 25% of the market value of the share at the beginning of the plan; Income tax,
  USC and employee PRSI would normally apply to the value of the discount.
- Tax free interest is payable on savings; Income tax at 40% would normally arise.
- There is no obligation on employees to exercise options and acquire shares. The total savings can
  be withdrawn tax free at the end of the savings period.
- No employer PRSI is payable.

How does it operate?

Upon joining an SAYE scheme, an employee agrees to save, with an approved savings provider, a fixed

sum out of net pay for a predetermined period (three, five or seven years). At the same time the employee is granted an option to purchase shares in the employing company or parent company at a predetermined price. The predetermined price can be the market value of the shares at the beginning of the savings period with a discount of up to 25%.

At the end of the savings period, employees can:

- Use their savings to purchase some, or all, of the shares covered by the option
- Withdraw their savings (including interest earned) in cash as a tax free sum
- Continue to invest with the savings provider

What are the conditions of the scheme?

Participation in the scheme must be open at any time to any employee/full time director who has been such an employee/director at all times during a qualifying period (not exceeding three years). There are some exceptions to this rule which need to be considered.

All employees/directors must be allowed to participate on similar terms.

Options may be allocated on the basis of length of service or level of basic salary. With Revenue agreement, it is possible to allocate options based on company performance/individual performance appraisal schemes.

The scheme shares must be ordinary shares fully paid up and not redeemable, and must also be:

- Of a class quoted on a Stock Exchange
- In a company not under the control of another company, or
- In a subsidiary of a company quoted on a Stock Exchange

Normally, options must be exercised within six months of the end of the savings period. An option not exercised in this period will normally lapse.

The minimum savings requirement is €12 per month. The maximum individual savings contribution cannot exceed €500 per month.

What are the taxation implications for the employee?

At grant date
There are no tax implications for the employee at the date of grant.

At exercise date
At the exercise date the employee exercises the options and acquires the shares at the predetermined price. Normally, income tax arises on the exercise of an option. However, under an approved SAYE plan, provided the conditions are satisfied, the employee will not be liable to income tax at the exercise date on the gain arising on the share value. The employer is obliged to deduct USC and employee PRSI on gains on the exercise of share options under the scheme.

If the employee wishes to take cash rather than shares, interest/bonus payable upon maturity of the savings contract will be exempt from deposit interest retention tax (DIRT).

Dividends paid post exercise
Any dividends paid in respect of shares received on exercise of an option are assessable to income tax, USC and PRSI under normal rules and the employee must declare this income on his annual tax return.

At sale
The employee will be subject to capital gains tax (currently 33%) on the difference between sales proceeds and the option price.

For disposals between 1 January and 30 November in a tax year, the capital gains tax must be paid on or before 15 December in the tax year.

For disposals in December in a tax year, the capital gains tax must be paid on or before 31 January in the following tax year.

The employee must also file an annual return declaring the disposals for that tax year.

Example:

Facts	
Length of savings contract	3 years
Savings per month	€100
Market Value of shares at grant date	€12.50
Option price (20% discount)	€10
Savings plus interest at end of 3 year period	€3,800
Market Value of shares in year 3	€20
No. of shares that may be purchased	380
PRSI @ 4%	€152
USC @ 5%	€190
No income tax payable on the grant and exercise of options or on savings. This example assumes that the individuals gross income will exceed €18,668 per annum but will be less than €70,044.	
Capital Gains Tax	
Sales proceeds	€7,600
Less cost	€3,800
Chargeable gain	€3,800
Annual exemption	€1,270
Taxable gain	€2,530
CGT @ 33%	€835

What are the tax implications for the employer?

An employer can claim a corporation tax deduction for the cost of establishing the scheme. However, any sum expended by the employer to enable a company/trust to acquire scheme shares will not be allowed for corporation tax purposes.

The employer must file a Form SRSO1 by 31 March of the year following the grant/exercise of the share options or within 30 days of request by Revenue. The employer must also include the PRSI and USC due in the company's P30/P35 returns. Revenue approval of a plan may be withdrawn for failure to comply with the reporting obligations.

We can advise on all aspects in relation to the implementation of an SAYE scheme.

How can we help?

We can advise on all aspects in relation to the implementation of an SAYE scheme.
An SAYE scheme cannot be implemented without Revenue approval. The following information needs to be provided to Revenue for approval of the scheme.

- A copy of the rules of the scheme
- Copies of all documents that will be issued to participants in the scheme e.g. employee explanatory booklet and contract of participation
- Appraisal scheme details.

Employees will need to select a savings provider. We can assist in liaising with the chosen Savings Contract Provider. We can draft documentation relating to the SAYE scheme including:

- Rules of the scheme
- Employee explanatory booklet
- Invitation to employees to participate, together with form of acceptance
- All other documentation

We can make all submissions to Revenue including obtaining pre-approval of the plan terms to guarantee Revenue approval of the final draft plan.

We can provide assistance with all Revenue reporting obligations.

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