Swings & roundabouts

In June, HMRC and the Office for National Statistics released an updated set of share schemes statistics for the 2015-16 tax year, after more than a year-long hiatus due to difficulties interrogating the data submitted via ERS Online. https://www.gov.uk/government/collections/employee-share-schemes-statistics

In order to finish this piece on a positive, let's get the negatives out of the way first. There's no data on plans for the 2014-15 tax year. There's a gap in data for SAYE plan activity for the 2014-15 and 2015-16 tax years, though the number of schemes in operation for 2015-16 is at least calculable. Whilst they are annotated regarding the missing SAYE data, most of the graphs in their chosen format present a distorted picture of tax-advantaged plans with SAYE included for all but the most recent tax years (Figures 1, 2, 4, 5, 7, 8 and 9). There is a note under most of the graphs stating that 'data is not available for SAYE for 2015-16 and so totals are not comparable with previous years'. This is disappointing – it would have been helpful if these graphs had been produced alongside a version for the prior years, but with only complete data represented.

On the subject of the total "cost" of income tax and National Insurance relief (shown in Figure 9 of the commentary and also Table 6.1), Section 5.5 of the ONS' commentary document states that this is calculated with reference to the value of share awards had they been paid to employees in cash. This is fundamentally unrealistic, as the values concerned would never have been paid to employees in cash by their employers in the first place. It also neglects to mention that the deductions from pay for SAYE participants are made net of income tax and National Insurance Contributions.

In my view it is therefore a stretch to refer to the resulting figures shown in Figure 9's graph as a cost to the Exchequer or, indeed, taxpayer. When companies' share prices perform well and employees generate significant gains from their plans (as was the case for many SAYE scheme savers with 2008 option grants maturing three or especially five years later), the resultant Capital Gains Tax collected via self-assessment returns is a welcome boost to the Revenue's coffers, and one which would not otherwise have existed. These values aren't reported, though there is a note buried on page 25 saying 'we do not estimate the cost *[sic]* of CGT as we cannot link the shares in the share schemes to the CGT reported via the self-assessment form'.

Let's be clear though, these plans would not exist without a comprehensive framework of tax advantages. We in the UK are fortunate to have such supportive legislation and many of our European neighbours are starting to emulate the success of these schemes, not least EMI. Imitation is indeed the most sincere form of flattery. It remains important to ensure that the full 'panoramic' picture is presented, not just a narrow snapshot focussed on IT and NIC. Take the corporation tax deduction for example, available to companies based on the value of the benefit derived from the plans by employees. We shouldn't be tempted to focus on this at the expense of all other moving parts just because of the activities of a small cadre of multinationals who view tax arbitrage as a corporate sport – behind the news headlines, the vast majority comply in spirit as well as to the letter of the law on corporate taxes. It would be a mistake to view this important CT deduction in a vacuum as plan issuer companies' P&Ls take the hit of the accounting charge on the whole value of awards made, spread over the life of the awards, arrived at partly via option valuation models (constructed by Nobel Prize-winning mathematicians, no less).

Yes, there is a saving to be made on NIC for SIP participants and their employers - but let's not get started on the iniquities of accelerated plan accounting charges due to participant behaviour regarding their plans (early withdrawals of SAYE savings and SIP 'bad' leaver/taxable share withdrawals being two examples), which are impossible for companies to accurately predict and budget for.

On to the positives, of which there are many.

A different way of viewing the 'cost' of income tax and NIC in Figure 9/Table 6.1, is instead to use these figures to work back to their gross value of these plans to the employees who participate in them. I don't have access to the average marginal IT and NIC rates for the share plans participant population in any given tax year, obviously, but we can still make some helpful extrapolations.

The total 'cost' of relief for SAYE in the tax year 2013-14 (the latest year for which this is available) was £320m. For SIP, in the tax year 2015-16, it's £290m. If we were to assume that two thirds of participants were basic rate taxpayers, with the remaining third divided equally by higher and additional rates, we could estimate that SAYE has delivered £860m of value to participants in that tax year and SIP, £781m. That's £1,641m that wouldn't otherwise have existed, and wouldn't otherwise have made its way into the pockets of employees and onward into their local economies. This is wealth creation in the hands of ordinary employees.

A newly formatted table included in the figures is Table 6.8, which helpfully shows the number of live schemes in operation by tax year and plan type. When you look at the number of all-employee plans for the 2015-16 tax year, at 1,430 this is greater than the previous peak, the number of SAYE plans alone in 1998-99, standing at 1,400 schemes. It's telling to note that the total number of SAYE and SIPs peaks at 1,900 for the tax year 2006-07, just before the start of the credit crunch in August 2007.

From the close of the 2013-14 tax year to the close of 2015-16's, the number of SAYE schemes in operation has increased by 60 to 590, and the number of SIPs has declined slightly to 840 from 850.

After a post-credit crunch decline, the number of all-employee schemes in operation is now increasing. Two swallows don't make a summer, as the saying goes, but if the data from our 2016 SAYE & SIP Survey (which looks at the calendar rather than the tax year) is anything to go by (with 37 new SAYE plans introduced and 28 SIPs launched as new plans or enhanced and re-launched), I would expect to see a further - albeit modest - recovery in the number of all-employees plans in next June's HMRC share scheme statistics.

We do risk losing ourselves – and share plans - in the weeds if we focus solely on the tax and accounting aspects, important as they are. The bigger picture is that employee share ownership gives people a stake, a seat at the table, by helping them to convert some of their pay into an asset which may grow in value and generate an income itself. All-employee share plans are a vital and accessible savings and investment mechanism for the millions eligible for and participating in these plans – without which, many would not save at all (YBS Share Plans commissioned some excellent research on this very topic by Prof. Andrew Pendleton just a couple of years ago).

HMRC's own past research has shown a productivity boost of between 2.5 and 5% for companies operating all-employee plans, compared to peers who do not operate such plans. These plans are a tool to help fight financial inequality and tackle the productivity problems which continue to beset our economy.

At worst, SAYE is a safe haven for employees to save in an easy and regular fashion, protected as it is by the Financial Services Compensation Scheme. In a continued near-zero interest rate environment, and with pressure on pay from rising living costs and inflation, anything that encourages good financial habits such as regular saving is a good thing. At its best, with an obliging share price SAYE is a fantastic incentive and reward for people to save, and to convert some of their pay into an appreciable asset. With financial advice, employees can make their gains from SAYE go even further by investing into ISAs and making other sensible tax-planning arrangements.

SIP Partnership shares help individuals to invest on a regular basis and build a 'nest egg', with greater flexibility than SAYE. For 'evergreen' monthly purchase schemes the key advantages are a) that any volatility in the company's share price is generally mitigated over the longer term and b) the tax advantages of gross pay contributions help to 'cushion' employees' holding values against share price decline too.

To conclude: the money that participants make from all-employee plans goes into ISAs, goes into savings accounts, goes into local communities, goes into buying homes and making steps towards more secure financial footings for employees' families and dependents. These plans are worth protecting, worth fighting for and worth enhancing so that they remain accessible, relevant and vital for generations to come. Statistics are valuable but all-employee share plans are priceless.