2014 Budget Submission

About *ifs ProShare*

In 1992 ***ifs*** *ProShare* was established by the Government, London Stock Exchange and numerous FTSE 100 companies to promote wider share ownership.

With more than 100 members ranging from SMEs to some of the UK's largest companies such as Asda, BT, BP, Burberry, National Grid, Sainsbury's and Virgin Media as well as share plan administrators and advisers including Capita, Computershare, Equiniti, YBS and Linklaters, today ***ifs*** *ProShare* is a member led, not-for-profit organisation that acts as a united voice for the UK employee share ownership industry.

About employee share ownership

Employee share ownership provides employees with a tax efficient savings and investment vehicle, enabling workers to gain a real stake in the company that they work for and providing employers with a more motivated, productive and engaged workforce that also provides the general economy with significant financial benefits. In 2011-12 alone the total value of shares and options awarded was £2.7bn under HMRC approved schemes.

There is a wealth of UK and international evidence that suggests employee share ownership can lead to higher productivity, better financial performance, greater innovation, lower staff turnover, reduced absenteeism and improved employer/employee relations.

Given these facts it is no great surprise that political parties of all persuasions have supported the concept and that policymakers regularly speak in support of the employee share ownership. However, despite warm words, successive Governments have failed to take action that would make employee share ownership fairer, increase participation and ultimately lead to greater growth for the UK economy.

Leadership

Political leaders have often expressed public support for employee share schemes. For example:

- David Cameron MP recently pronounced, *"I personally strongly support the idea of widening share ownership"*
- Nick Clegg MP stated "*We don't believe our problem is too much capitalism - we think it's that too few people have capital. We need more individuals to have a real stake in their firms."*
- Ed Balls MP said Labour, *"…are committed to supporting employee share ownership, which benefits companies, employees and the economy."*

Improvements

With all political parties supporting employee share ownership it should not be difficult for policy makers to back up their statements of support with concrete action. The UK employee share ownership industry would like Government to commit to the following four policy amendments as soon as possible:

1) Savings limits for Save As You Earn (SAYE) and Share Incentive Plan (SIP) share schemes should be increased from April 2014 and raised in line with inflation every year thereafter.

2) The one million+ employees investing in a SIP - including 150,000 Royal Mail workers – must be allowed to withdraw their shares free of tax and NI after a minimum holding period of three years instead of five.

3) ISA transfers for SAYE participants must be simplified to encourage more saving & investment.

4) Private equity backed companies should be permitted to offer SIP, SAYE and EMI share schemes

1. Increase SIP & SAYE savings limits

Government claim they want to make share schemes more attractive for employees whilst simultaneously stating an increase in savings limits cannot occur because it will make share plans more attractive - which has cost implications. This absurd and contradictory position denies millions of workers the opportunity to save and invest more money in share plansfor their own futures thus damaging the economy and inhibiting growth.

Other excuses for failing to act have proven equally spurious. For example, Treasury officials have suggested that an increase in the SAYE limits would only benefit a minority. However, last year HM Treasury officials admitted they have no sound evidence to substantiate this claim: (http://www.wsandb.co.uk/wsb/news/2204251/treasury-share-scheme-policy-based-on-largely-anecdotal-evidence)

The Treasury "minority" argument is further weakened by the fact 23% of SAYE participants save the maximum £3,000 a year in an SAYE plan where as only 20% save the maximum amount in an ISA and yet the Government not only has a substantially higher ISA savings limit but increases this limit in line with inflation on an annual basis.

Successive Governments have failed to increase the maximum monthly savings limit for SAYE plans which means employees are currently allowed to invest no more than £250 a month; this maximum limit has not been increased since 1991.Had the figure risen in line with inflation (RPI) for each of the following 20+ years, the maximum monthly contribution would stand at more than £454.00 today.

Similarly, SIP maximum savings limits of £1,500 per annum have not been increased since their introduction in 2001. Had they also risen in line with inflation they would stand at more than £2,100 today.

ISA savings limits are increased in line with inflation every year, which makes the savings limit restrictions on the two million+ SAYE and SIP employee shareholders appear even more unfair, unjust and discriminatory.

It is also worth noting that increasing the monthly maximum savings limit is likely to cost less than £25m per annum in tax and NI relief. In contrast billions are spent on pension tax relief. This is supposed to encourage people to save more for their retirement but in 2013 both Michael Johnson of the Centre for Policy Studies (CPS) and Chris Curry of the Pensions Policy Institute (PPI) produced research indicating this tax relief does not encourage saving and investing.

PPI: "Tax relief does little to encourage pension saving, particularly among low and medium earners"

CPS: "£360 billion spent over the last decade on encouraging pension savings is misguided and ineffectual"

This evidence provides further food for thought and should make HM Treasury think more carefully about how savings and investments can best be incentivised.

Recommendation:

- increase the monthly SAYE savings limit from £250 to £450 a month (still less than it would have been if it had simply increased in line with inflation since 1991)
- increase the SIP partnership shares limit from £1,500 to £2,100 (still less than it would have been if it had simply been increased in line with inflation since 2001)
- Increase both SIP and SAYE savings limits in line with inflation on an annual basis in the same way that ISA savings limits are increased annually.

Supporters include:

Conservative MPs such as Graham Brady MP (Chairman, 1922 Committee) and Conservative Peers such as Baroness Wheatcroft have expressed their support for an increase in savings limits as have Labour MPs including Adrian Bailey MP (Chairman, BIS Select Committee) and Jim Fitzpatrick who has written to David Gauke about the issue on a number of occasions. Likewise MPs from Plaid Cymru, the SNP, SDLP, DUP, and the Green Party have given public support to increases along with Liberal Democrat MPs John Thurso, Julian Huppert, John Leech, Lorely Burt, Stephen Lloyd, Adrian Sanders, Tom Brake and Menzies Campbell. Other organisations that would support an increase in savings limits include The Office of Tax Simplification, most of the FTSE 100, The Quoted Companies Alliance and ***ifs*** *ProShare*.

2. Reduce the minimum SIP holding period

The five year period that employees must wait before they can remove their shares tax and NI free from a SIP acts as a disincentive to saving in such a plan and should be reduced to three years as soon as possible.

Over one million employees currently participate in a SIP and those affected include the 150,000 employees participating in the new Royal Mail SIP.

The inherent unfairness of this SIP anomaly is demonstrated by the fact all other HMRC approved share plans offer these benefits after a minimum holding period of three years.

An ***ifs*** *ProShare* survey found that 93% of companies offering a SIP believe the 5 year period is too long. The same survey also revealed that 35% of companies who do not currently offer a SIP (but do offer another form of employee share plan) would offer a SIP if the period was reduced to three years.

Many employees, particularly those who have not participated in a share scheme before, choose to participate for the shortest length of time. This is demonstrated by the fact that well over 60% of Save As You Earn (SAYE) share plan participants are enrolled in a three year plan, compared to approximately 35% for five year plans. Policymakers need to recognise that this does NOT mean employees only save for a three year period.

Many employees continue to participate in another share plan at the end of the initial three year period as they have adopted the savings habit, experienced the benefits of participation and understand exactly what is required. Indeed some employees will repeat the process over and over again until retirement - yet another useful policy outcome as it helps ensure employees are financially better off in retirement.

Reducing the period employees can withdraw shares tax free to three years should result in increasing numbers of employees purchasing shares through a SIP not just in the short term but in the medium to long term too.

The current SIP five year holding period anomaly is increasingly at odds with modern working practices. The median number of jobs in the UK is 11; more than 25% of employees will change jobs between 11 and 15 times in their working life and 15% of the workforce will have 16 jobs +. So, given the increasingly mobile employment trends of the UK workforce a reduction in the five year holding period would also better reflect the needs of the British labour market.

Recommendation:
Reducing this period to three years will lead to
i) SIPs being brought into line with the other HRMC approved share plans
ii) an increase in the number of companies operating SIPs
iii) greater participation by employees in SIPs

We therefore suggest the minimum period be reduced to three years as soon as is practicable.

Supporters include:
The Office for Tax Simplification – recommended this change to Government over a year ago
The Liberal Democrats - adopted as party policy at their September 2012 Party Conference
The majority of listed companies offering a SIP have expressed their support for this change as have the Quoted Companies Alliance.
***ifs** ProShare* – actively campaigned for this change for more than five years

3. ISA transfers
SAYE participants can transfer shares bought through an SAYE scheme directly into an ISA within 90 days of purchase and can also transfer shares to a spouse/civil partner.

For CGT purposes the spouse/civil partner is treated in the same way as a transferor. However, the transferee is not permitted to transfer those shares directly into an ISA.

Rather absurdly, the shares have to be sold and the funds transferred to the ISA to repurchase the shares. This not only results in unnecessary bureaucracy but selling, repurchasing and stamp duty charges, all of which combine to act as a significant barrier to keeping shares and investing in an ISA for the future.

Recommendation:
***ifs** ProShare* is simply seeking an amendment that would allow SAYE purchased shares to be transferred without the hassle and costs necessitated by sale and repurchase. No changes to CGT or income tax are required.

Supporters include:
***ifs** ProShare*, The Tax Incentivised Savings Association (TISA), The Quoted Companies Alliance and numerous individual organisations e.g. BT

4. Private equity backed companies
Private equity backed companies are forming an increasingly important part of the UK economy. The UK industry is the largest and most developed in Europe, accounting for almost 60% of the total European annual private equity investment. It is second only to the US in terms of global importance.

Companies that have received private equity funding account for the employment of around 3 million people in the UK, over 10% of the total UK workforce. However, these millions of employees are excluded from saving and investing in any tax advantaged employee share plan.

Where private equity funds invest in a company, this usually results in more than 50% of the share capital being held by one, or more often, a series of limited partnerships (LPs) each fund being structured as an LP. The LPs typically hold their shares through a corporate general partner, which may be the same entity for the various LPs that invest in a particular company (or where there are different general partners, each fund may appoint the same fund manager to represent all of the LPs investing in an investee company).

This means that the investee company normally fails the "control test" in the approved share plan legislation - SAYE and SIP legislation provides that the company whose shares are being used in the plan must not be under the control of any company, unless that company is listed.

When this legislation was initiated in the late 1970's it was felt that if a company was neither listed nor the subsidiary of a listed company there would be scope for manipulation of the share price – either in favour of or to the detriment of employees. This was understandable at the time but almost forty years later policymakers should recognise that the legislation for share plans has developed considerably. Numerous robust safeguards against artificial increases and decreases in share values – mainly aimed at preventing tax avoidance – are now in place. The tremendous growth in private equity since then should also be recognised.

Many private equity-owned companies used to operate tax advantaged share plans before they were acquired by new private equity owners, for example Pizza Express, Debenhams and Boots. Such change of ownership makes tax approved plans unavailable resulting in an immediate and acutely felt loss to these employees. Why should shop floor workers and other general employees be prevented from sharing in the success of the company they work for simply by virtue of the ownership structure of the purchasing company?

Recommendation:
Any private equity backed company should qualify for tax advantaged "all-employee" share plans such as SIP and SAYE in exactly the same way as other companies. They should also be permitted to issue share options under the Enterprise Management Incentive (EMI) scheme.

Supporters include:
***ifs** ProShare*, The British Private Equity & Venture Capital Association (BVCA) and the Liberal Democrats (adopted as party policy in September 2012).

Further information

Further information about employee share ownership can be found at **www.ifsproshare.org**

Alternatively, if you have any queries or require any further information about the ***ifs** ProShare* 2014 Budget Submission please do not hesitate to contact Phil Hall, Special Adviser to ***ifs** ProShare* at:

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